

APPRAISAL AND  
HIGHEST AND BEST USE STUDY  
IN A SELF CONTAINED REPORT

**OLD POST OFFICE AND ANNEX  
1100 PENNSYLVANIA AVE, NW  
WASHINGTON, DC 20004  
DC0029ZZ**

PREPARED FOR

**U.S. GENERAL SERVICES ADMINISTRATION  
OFFICE OF REAL PROPERTY ASSET MANAGEMENT  
ROOM 7300  
1800 F STREET, NW  
WASHINGTON, DC 20405  
ATTENTION: JOHN LIBEG, MAI**

DATE OF VALUATION

**SEPTEMBER 2, 2011**

DATE OF REPORT

**OCTOBER 3, 2011**

PREPARED BY

**RICHARD B. WATTS, MAI/STEVEN A. METZBOWER, MAI  
METZBOWER, WATTS & HULTING, LC  
REAL ESTATE ANALYSTS  
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JOB #: 11292**

**METZBOWER, WATTS & HULTING**  
REAL ESTATE ANALYSTS

October 3, 2011

Mr. John Libeg, MAI  
Office of Real Property Asset Management  
U.S. General Services Administration  
1800 F Street, NW Room 7300  
Washington, DC 20405

**Re: Appraisal and Self Contained Report  
GSA Control Number DC0029ZZ  
Old Post Office and Annex  
1100 Pennsylvania Avenue, NW  
Washington, DC 20004**

Mr. Libeg:

This self contained report describes our appraisal of the referenced property, including all related data, analyses, and conclusions. The report also describes all assumptions, limiting conditions, and special valuation issues which influence the value conclusion.

The appraisal includes the market value estimate of the fee simple interest in the Old Post Office Building and annex (DC0029ZZ). This is a 9-story historic Class B office building with an interior retail court, plus a three-level retail annex that has been vacant since 1995. The office space is occupied by federal agencies. The building includes seven surface parking spaces.

You have requested an estimate of market value under five scenarios: The market value of the land underlying the Annex, if vacant; 2) The market value of the land underlying the Old Post Office, if vacant; 3) The fee simple market value of the Old Post Office, as improved, assuming continued occupancy by the federal government; 4) The fee simple market value of the Annex, as improved, assuming continued occupancy by the federal government; and 5) Fee simple market value for the property "as-is" as of the effective date of value based on the property's highest and best use and to a typical market investor. This scenario makes no assumption of continued occupancy by the Federal Government.

**METZBOWER, WATTS & HULTING**  
REAL ESTATE ANALYSTS

Mr. John Libeg, MAI  
Transmittal Letter

Our market value conclusions are as follows:

Scenario 1	
Annex Land Value	\$28,000,000
Scenario 2	
Old PO Land Value	\$115,000,000
Scenario 3	
Annex at Govt. Occ.	\$8,500,000
Scenario 4	
Old PO at Govt Occ.	\$56,000,000
Scenario 5	
Entire Property at HBU	\$82,900,000

It should be noted that these value estimates are based upon certain hypothetical conditions and extraordinary assumptions.

**Hypothetical Conditions**

- Based on directions provided by the client, this appraisal has been performed under the assumption that the property is under private ownership, as opposed to its current actual ownership by the United States of America.

**Extraordinary Assumptions**

The appraisal is based on the following extraordinary assumptions. These have been developed in consultation with the client, and reflect necessary assumptions for different value scenarios:

- The subject and land to the south and is not zoned due to federal government ownership. We have assumed the property, under private ownership, would be subject to the prevailing zoning on adjacent properties to the north, DD/C-5.
- We have assumed the land, if vacant, could be developed to a density similar to that achieved on nearby, similarly zoned parcels, considering the physical constraints on the subject land. This applies only to the hypothetical "as-if vacant" land values requested in Value Scenarios 1 & 2.
- In allocating land to each component, we have applied the actual land area in Square 383, Lot 800 to the Old Post Office. This is a legally existing tax parcel. The remaining land underlying the Annex improvements, and forming the plaza around the Annex, (shown as Parcels 1, 2 and 3 on the site plan) is allocated to the Annex for purposes of calculating FAR. We assume a separate tax parcel could be created for the Annex and adjacent land, as it is now legally part of the lots that make up the larger parcel underlying the IRS Building.
- We have assumed that any redevelopment of the Annex building could be placed within the existing building footprint.
- We have based our analysis of "as-is" value, subject to continued federal government occupancy (Scenarios 3 & 4), on estimates of NRA provided by the client and crosschecked by our field measurements and review of plans that were available. Only an architect or engineer can provide precise estimates of GBA and NRA, and these were not available.

**METZBOWER, WATTS & HULTING**  
REAL ESTATE ANALYSTS

Mr. John Libeg, MAI  
Transmittal Letter

- The value under continued federal occupancy of the Old Post Office (Scenario 3) assume continued use of the steam and chilled water supplied by the adjacent IRS building, and no new HVAC plant would be required.
- We have assumed that all costs related to operation, security, and maintenance of the Clock Tower will be paid directly by the Interior Department and there will be no expenses or income that goes to the landlord under any value scenario.
- We have assumed the cost of urgent repairs to the Old Post Office are correct as listed in the Asset Business Plan.
- For our examination of the property's Highest and Best Use as-is, assuming that it would be made available to a private developer for redevelopment (Scenario 5), we have made the extraordinary assumption that new construction cost estimates, derived from the Marshall Valuation Service cost manual, are reasonably reflective of renovation costs for the development alternatives being analyzed.

Please refer to the attached self-contained appraisal report for all of the data and analyses used in developing these conclusions of value.

Respectfully submitted,

Metzbower, Watts & Hulting, LC

(b) (6)



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Richard B. Watts, MAI  
Principal  
Washington, DC Certified General Appraiser # GA-10189  
(Expiration Date 2/28/2012)

(b) (6)



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Steven A. Metzbower, MAI  
Principal  
Washington, DC Certified General Appraiser # GA-10188  
(Expiration Date 2/28/2012)



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## **SUMMARY OF SALIENT FACTS AND CONDITIONS**

### **Type of Property:**

The Old Post Office Building (DC0029ZZ) is a 9-story Class B office building that is on the National Register of Historic Places. It was built in 1892 and 1899. Primary tenants are the National Endowment for the Arts and National Endowment for the Humanities. Attached at the rear is a three-level, 100,735 GSF annex that was built as a retail mall in 1992, and closed in 1995. The property sits on a combined 2.704 acre site that is not zoned due to its federal ownership.

**Address:** 1100 Pennsylvania Ave, NW  
Washington, DC 20004

**Property Rights Appraised:** Fee Simple Estate

**Purpose of the Appraisal:** The purpose of the appraisal is to estimate the market value of the subject property as of the effective date of this report under the following conditions:

- 1) Land value for the land underlying the Annex;
- 2) Land value for the land underlying the Old Post Office;
- 3) Fee simple value of the Old Post Office based on its highest and best use as of the effective date of value, assuming continued occupancy by the Federal Government at market level occupancy and rent;
- 4) Fee simple value of the Annex based on its highest and best use as of the effective date of value, assuming continued occupancy by the Federal Government at market level occupancy and rent;
- 5) Fee simple market value for the property "as-is" as of the effective date of value based on the property's highest and best use and to a typical market investor. This scenario makes no assumption of continued occupancy by the Federal Government.

### **Scope of the Appraisal:**

The scope of the appraisal includes:

1. An inspection of the subject site and buildings and review of floor plans that were available;
2. Research and collection of data on comparable building sales and rentals in the subject's trade area, as well as comparable land sales;
3. Verification of all information with buyers, sellers, brokers, public records, and/or with other knowledgeable sources;
4. Analysis of changes in market conditions, locational factors, physical attributes, and other pertinent factors;
5. Development of a detailed highest and best use study for the property, "as-is";
6. Application of the Sales Comparison and Income Approaches to value. Due to the age of the Old Post Office and physical, functional and economic obsolescence affecting both buildings, the Cost Approach is not applicable. The results of our analyses have been reported in a self-contained report format.

<b>Date of Inspection:</b>	September 2, 2011
<b>Date of Valuation:</b>	September 2, 2011
<b>Date of Report:</b>	October 3, 2011
<b>Improvements:</b>	9-story Class B office building that is on the National Register of Historic Places. It was built in 1892 and 1899. Primary tenants are the National Endowment for the Arts and National Endowment for the Humanities. Gross building area is estimated to be 414,691 square feet. Attached at the rear is a three-level, 100,735 square foot annex that was built as a retail mall in 1992, and closed in 1995. The Old Post Office is on a 61,436 square foot, independent tax parcel. The Annex is situated on part of a larger tax parcel that is primarily occupied by the IRS building. Allocated land area, including portions of closed 11 <sup>th</sup> Street, is 56,363 square feet.
<b>Occupancy:</b>	The office is fully occupied by federal agencies, including the NEA and NEH. The retail space in the Old Post Office is managed by a third party and is currently 73% vacant.
<b>Site:</b>	61,436 square feet (Old Post Office) 56,363 square feet (Annex)
<b>Zoning:</b>	Unzoned, DDC-5 is most likely based on neighboring zoning
<b>Current Use:</b>	Multi-tenant office building with ground level retail
<b>Highest and Best Use:</b>	Redevelopment
<b>Most Likely Buyer:</b>	A national investor
<b>Exposure Time:</b>	12 months
<b>Marketing Time:</b>	12 months

**CRITICAL ASSUMPTIONS AND VALUE INDICATIONS – SCENARIOS 1 THROUGH 4****Land Value**

Unadjusted Range of Land Sales Per FAR:	\$200.00 to \$267.22
Adjusted Range of Sales Per FAR:	\$200.00 to \$223.92
Indicated Value Per FAR:	\$210 (Old Post Office) \$175 (Annex)
Land Value Conclusion:	\$115,000,000 (Old Post Office) \$28,000,000 (Annex)

**Income Approach**Old Post Office

Estimate of Market Rent Per SF:	\$41.50 per s.f., FS (office) \$30-\$35 PSF, NNN (retail)
Estimate of Expenses, Per SF:	\$22.58
Stabilized Occupancy Rate:	95%
Vacancy/Collection Loss:	1%
Stabilized NOI:	\$4,020,824
Overall Capitalization Rate:	6.0%

Value Indication:	\$67,013,735
Cost to Complete Repairs and TI:	<u>(\$11,188,400)</u>
Value As-Is:	\$56,000,000

Annex

Estimate of Market Rent Per SF:	\$27.00 s.f., Full Service
Estimate of Expenses, Per SF:	\$14.34
Stabilized Occupancy Rate:	95%
Vacancy/Collection Loss:	1%
Stabilized NOI:	\$813,138
Overall Capitalization Rate:	6.25%

Value Indication:	\$13,010,216
Cost to Complete Repairs and TI:	<u>(\$4,528,669)</u>
Value As-Is:	\$8,500,000

**Sales Comparison Approach**

<u>Old Post Office</u>		
Unadjusted Range of Sales Per SF:		\$395.62 to \$446.06
Adjusted Range of Sales Per SF:		\$299.11 to \$361.02
Indicated Value Per SF:		\$325.00
Value Indication:		\$71,250,075
Cost to Complete Repairs and TI:		<u>(\$11,188,400)</u>
Value As-Is:		\$60,000,000
Implied EGRM:		8.06 (Stabilized)

<u>Annex</u>		
Unadjusted Range of Sales Per SF:		\$123.96 to \$224.47
Adjusted Range of Sales Per SF:		\$105.76 to \$197.81
Indicated Value Per SF:		\$130.00 (Shell)
Value Indication:		\$9,600,000

**CRITICAL ASSUMPTIONS AND VALUE INDICATIONS – SCENARIO 5**

<u>Old Post Office – Shell Value, As Is</u>		
Unadjusted Range of Sales Per SF:		\$123.96 to \$224.47
Adjusted Range of Sales Per SF:		\$187.11 to \$302.54
Indicated Value Per SF:		\$240.00
Value Indication:		\$60,500,000

<u>Annex</u>		
Estimated FAR Density:		160,000 FAR s.f.
Indicated Land Value Per FAR SF:		\$140.00
Value Indication:		\$22,400,000

**Final Value Estimates**

Scenario 1	
Annex Land Value	\$28,000,000
Scenario 2	
Old PO Land Value	\$115,000,000
Scenario 3	
Annex at Govt. Occ.	\$8,500,000
Scenario 4	
Old PO at Govt Occ.	\$56,000,000
Scenario 5	
Entire Property at HBU	\$82,900,000

## **INTRODUCTION**

### **PROPERTY IDENTIFICATION**

<b>Address</b>	1100 Pennsylvania Ave, NW Washington, DC 20004
<b>Identification</b>	Square 0323, Lot 0800, plus part of Squares 0349 and 0350
<b>Property History</b>	The property is owned by the United States of America. The assessment records do not indicate acquisition dates or prices, and the properties have been owned by the United States government for many years. The owner is soliciting offers for the property; rather than a sale, any redevelopment would likely be structured as a long term lease from the federal government.

### **SCOPE OF THE APPRAISAL**

The scope of the appraisal includes:

1. An inspection of the subject sites and buildings and review of floor plans that were available;
2. Research and collection of data on comparable building sales and rentals in the subject's trade area, as well as comparable land sales;
3. Verification of all information with buyers, sellers, brokers, public records, and/or with other knowledgeable sources;
4. Analysis of changes in market conditions, locational factors, physical attributes, and other pertinent factors;
5. Development of a detailed highest and best use study for the property, as-is;
6. Application of the Sales Comparison and Income Approaches to value. Due to the presence of physical, functional, and economic obsolescence, the Cost Approach is not applicable. The results of our analyses have been reported in a self-contained report format.

### **PROPERTY RIGHTS APPRAISED**

The valuation addresses the fee simple interest of the property. Fee simple interest is defined as:

"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the government powers of taxation, eminent domain, and escheat."<sup>1</sup>

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<sup>1</sup> Dictionary of Real Estate Appraisal, 4th Edition.

## **DEFINITION OF MARKET VALUE <sup>2</sup>**

The amount of cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.

## **PURPOSE OF THE APPRAISAL**

The purpose of the appraisal is to estimate the market value of the subject property as of the effective date of this report under the following scenarios:

- 1) Land value for the land underlying the Annex;
- 2) Land value for the land underlying the Old Post Office;
- 3) Fee simple value of the Old Post Office based on its highest and best use as of the effective date of value, assuming continued occupancy by the federal Government at market level occupancy and rent;
- 4) Fee simple value of the Annex based on its highest and best use as of the effective date of value, assuming continued occupancy by the federal Government at market level occupancy and rent;
- 5) Fee simple market value for the property “as-is” as of the effective date of value based on the property’s highest and best use and to a typical market investor. This scenario makes no assumption of continued occupancy by the federal government.

## **INTENDED USE AND USERS**

The intended use of this appraisal is to provide an opinion of the value of the asset for any analysis by the United States General Services Administration in determining the appropriate strategy for the asset. The intended user of the appraisal is the GSA.

## **Date of Value**

September 2, 2011

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<sup>2</sup> GSA Scope of Work; Uniform Appraisal Standards for Federal Land Acquisitions, Washington, DC.

**GENERAL ASSUMPTIONS**

This appraisal report has been made with the following general assumptions:

- 1) No responsibility is assumed for the legal description provided for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
- 2) The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
- 3) Responsible ownership and competent property management are assumed.
- 4) This information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) All engineering studies are assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
- 6) It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
- 7) It is assumed that the property is in full compliance with all applicable federal, state and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
- 8) It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
- 9) It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
- 10) It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
- 11) Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in the field, if desired.



### **LIMITING CONDITIONS**

This appraisal report has been made with the following general limiting conditions:

- 1) Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
- 2) Possession of this report, or a copy thereof, does not carry with it the right of publication.
- 3) The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.
- 4) Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.
- 5) The forecasts, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and continuation of current economic trends. These forecasts are, therefore, subject to changes with future conditions.
- 6) If the property is proposed construction, improvements are assumed to have been completed per the plans and specifications at the assumed dates of completion and/or stabilization. Any construction is assumed to conform to all legal requirements.
- 7) Exhibits, maps, and site plans included in this report are intended solely to help the reader visualize the property and its environs. They should not be used for surveys or any other purpose.
- 8) Unless otherwise specified in the report, no consideration has been given to personal property located on the property or the cost of relocating such personal property; only the real property was considered in the appraisal.
- 9) The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific compliance survey and analysis of the property to determine whether or not it is conformance with ADA. It is possible that a compliance survey could reveal that the property is not in compliance with one or more of the requirements of this act. If so, this could have a negative effect on the subject property value. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.



**Old Post Office Building –Front View on Pennsylvania Avenue, NW  
View southeast, from across Pennsylvania Avenue at 12<sup>th</sup> Street, NW**



**11<sup>th</sup> Street Plaza Entry to Annex, Looking SE  
Photos taken 9/2/2011 by RBW**

**CERTIFICATION**

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct;
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions and conclusions;
- The signatories have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved;
- The signatories have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
- My engagement in this assignment was not contingent upon developing or reporting predetermined results;
- My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
- The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, the standards of the District of Columbia's Real Estate Appraiser Board, and the Standards of Professional Practice and Code of Ethics of the Appraisal Institute.
- Richard B. Watts, MAI and Steven A. Metzbower, MAI made a personal inspection of the property that is the subject of this report;
- We have not previously provided appraisal or other real estate services concerning the property;
- No one provided significant real property appraisal assistance to the persons signing this report;
- As of the date of this report, Richard B. Watts, MAI and Steven A. Metzbower, MAI have completed the requirements of the continuing education program of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

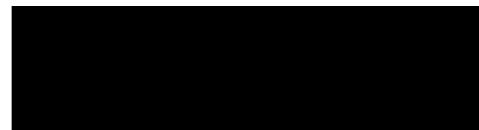
**Value Conclusions, Effective Date September 2, 2011. Refer to the Hypothetical Conditions and Extraordinary Assumptions on the following page.**

(b) (6)



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Richard B. Watts, MAI  
Washington, DC Certified General Appraiser # GA-10189  
(Expiration date 2/28/2008)



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Steven A. Metzbower, MAI  
Washington, DC Certified General Appraiser # GA-10188  
(Expiration date 2/28/2012)

**Hypothetical Conditions**

- Based on directions provided by the client, this appraisal has been performed under the assumption that the property is under private ownership, as opposed to its current actual ownership by the United States of America.

**Extraordinary Assumptions**

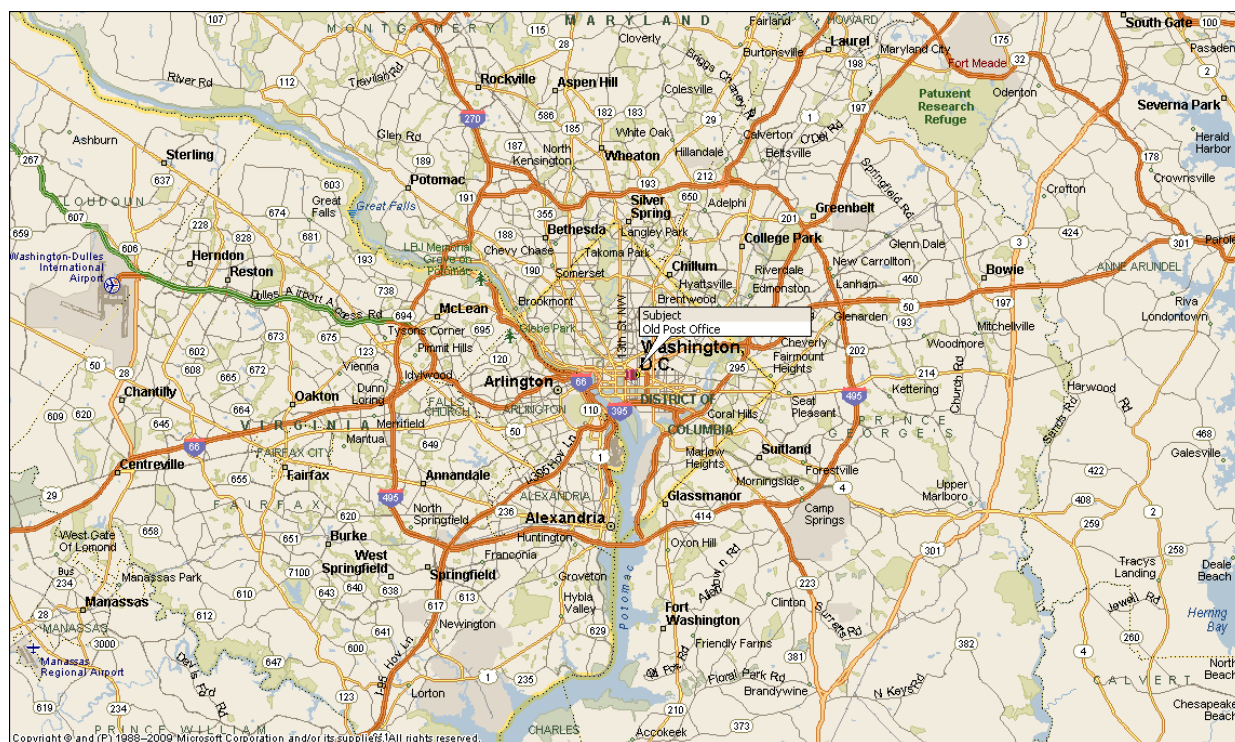
The appraisal is based on the following extraordinary assumptions. These have been developed in consultation with the client, and reflect necessary assumptions for different value scenarios:

- The subject and land to the south and is not zoned due to federal government ownership. We have assumed the property, under private ownership, would be subject to the prevailing zoning on adjacent properties to the north, DD/C-5.
- We have assumed the land, if vacant, could be developed to a density similar to that achieved on nearby, similarly zoned parcels, considering the physical constraints on the subject land. This applies only to the hypothetical “as-if vacant” land values requested in Value Scenarios 1 & 2.
- In allocating land to each component, we have applied the actual land area in Square 383, Lot 800 to the Old Post Office. This is a legally existing tax parcel. The remaining land underlying the Annex improvements, and forming the plaza around the Annex, (shown as Parcels 1, 2 and 3 on the site plan) is allocated to the Annex for purposes of calculating FAR. We assume a separate tax parcel could be created for the Annex and adjacent land, as it is now legally part of the lots that make up the larger parcel underlying the IRS Building.
- We have assumed that any redevelopment of the Annex building could be placed within the existing building footprint.
- We have based our analysis of “as-is” value, subject to continued federal government occupancy (Scenarios 3 & 4), on estimates of NRA provided by the client and crosschecked by our field measurements and review of plans that were available. Only an architect or engineer can provide precise estimates of GBA and NRA, and these were not available.
- The value under continued federal occupancy of the Old Post Office (Scenario 3) assume continued use of the steam and chilled water supplied by the adjacent IRS building, and no new HVAC plant would be required.
- We have assumed that all costs related to operation, security, and maintenance of the Clock Tower will be paid directly by the Interior Department and there will be no expenses or income that go to the landlord under any value scenario.
- We have assumed the cost of urgent repairs to the Old Post Office are correct as listed in the Asset Business Plan.
- For our examination of the property’s Highest and Best Use as-is, assuming that it would be made available to a private developer for redevelopment (Scenario 5), we have made the extraordinary assumption that new construction cost estimates, derived from the Marshall Valuation Service cost manual, are reasonably reflective of renovation costs for the development alternatives being analyzed.

## AREA ANALYSIS

### WASHINGTON, D.C. METROPOLITAN AREA

As the capital of the United States, Washington, D.C. is a prominent metropolitan area, which has historically boasted a healthy economy and steady growth. Washington is also the southernmost city in the northeast corridor, a densely populated string of major U.S. cities including Boston, New York, Philadelphia, Baltimore, and Washington, D.C. These two primary factors combine to create a diverse economy, for which expectations of growth are sound.



**WASHINGTON, DC METROPOLITAN AREA**

## **ECONOMIC OVERVIEW**

### **Population & Households**

The population of the metropolitan area is forecasted as shown in the following table:

**FORECASTED POPULATION GROWTH  
WASHINGTON, DC METROPOLITAN AREA, 2005 - 2015**

	2005	2010	2015	% Increase	
				2005-2010	2010-2015
<b>Washington, DC</b>	<b>582,049</b>	<b>605,513</b>	<b>651,526</b>	<b>4.0%</b>	<b>7.6%</b>
<b>Suburban Maryland</b>					
Montgomery County	929,097	979,996	1,016,996	5.5%	3.8%
Prince George's County	835,705	846,171	873,103	1.3%	3.2%
Frederick County	220,876	243,221	265,566	10.1%	9.2%
Calvert County	86,451	91,748	96,500	6.1%	5.2%
Charles County	136,363	144,594	160,098	6.0%	10.7%
Total Suburban Maryland	<b>2,208,492</b>	<b>2,305,730</b>	<b>2,412,263</b>	<b>4.4%</b>	<b>4.6%</b>
<b>Northern Virginia</b>					
Arlington County	199,189	212,318	224,816	6.6%	5.9%
City of Alexandria	135,854	145,011	149,077	6.7%	2.8%
Fairfax County	1,066,666	1,091,566	1,132,585	2.3%	3.8%
Loudoun County	247,333	290,002	318,678	17.3%	9.9%
Prince William County	405,298	451,852	501,060	11.5%	10.9%
Stafford County	<u>108,125</u>	<u>132,183</u>	<u>156,237</u>	<u>22.3%</u>	<u>18.2%</u>
Total Northern Virginia	<b>2,162,465</b>	<b>2,322,932</b>	<b>2,482,453</b>	<b>7.4%</b>	<b>6.9%</b>
<b>Total Metropolitan Area</b>	<b>4,953,006</b>	<b>5,234,175</b>	<b>5,546,242</b>	<b>5.7%</b>	<b>6.0%</b>

Metropolitan Washington Council of Governments, Route 8.0 Cooperative Forecasts, December 2010

As the table indicates, the metropolitan area population grew 5.7% between 2005 and 2010, and growth is projected to continue at a slightly greater pace through 2015. In the past, the dominant migration pattern in the area was one of stability in the District of Columbia, with the majority of the growth occurring in the suburban jurisdictions of Maryland and Virginia. More recently, however, population growth has resumed in the District, due to more limited availability of land in the close-in suburbs, and the growth in employment within the District, fueled by the US government. The most rapid rates of growth are occurring in lesser developed outer suburban areas such as Frederick and Charles Counties in Maryland, as well as Loudoun, Prince William, and Stafford Counties in northern Virginia.

The population of the District of Columbia grew 4.0% between 2005 and 2010, and is projected to grow 7.6% during the following five years. This is only slightly below the rate of growth for the metropolitan area as a whole between 2005 and 2010, and it is in excess of the growth rates for several suburban jurisdictions. As mentioned above, federal government employment has been expanding since 2000, as has employment at subcontractors and organizations seeking to influence the government, such as lobbyists and associations. Combined with increases in the cost and time associated with commuting from the suburbs into the District, as well as concerns over the impact of non-public transportation on the



environment, these trends have resulted in increased demand for residential options close to downtown Washington. Furthermore, this trend has been reinforced by the availability of high quality public transportation in D.C. and its close-in suburbs, anchored by its first class subway system, known as Metrorail. As a result, there has been a substantial amount of new home construction in close-in urban neighborhoods, primarily in the form of multi-family apartments and condominiums.

**FORECASTED HOUSEHOLD GROWTH  
WASHINGTON, DC METROPOLITAN AREA, 2005 - 2015**

			% Increase		
	2005	2010	2015	2005-2010	2010-2015
<b>Washington, DC</b>	<b>253,415</b>	<b>265,190</b>	<b>287,323</b>	<b>4.6%</b>	<b>8.3%</b>
<b>Suburban Maryland</b>					
Montgomery County	347,500	360,500	377,000	3.7%	4.6%
Prince George's County	299,867	306,006	319,057	2.0%	4.3%
Frederick County	79,493	87,708	95,293	10.3%	8.6%
Calvert County	29,900	32,049	34,298	7.2%	7.0%
Charles County	47,445	50,950	57,528	7.4%	12.9%
Total Suburban Maryland	<b>804,205</b>	<b>837,213</b>	<b>883,176</b>	<b>4.1%</b>	<b>5.5%</b>
<b>Northern Virginia</b>					
Arlington County	92,213	100,476	108,091	9.0%	7.6%
City of Alexandria	66,311	66,632	68,508	0.5%	2.8%
Fairfax County	389,959	400,172	418,742	2.6%	4.6%
Loudoun County	87,482	102,331	112,669	17.0%	10.1%
Prince William County	135,991	152,404	172,583	12.1%	13.2%
Stafford County	<u>34,665</u>	<u>43,366</u>	<u>52,079</u>	<u>25.1%</u>	<u>20.1%</u>
Total Northern Virginia	<b>806,621</b>	<b>865,381</b>	<b>932,672</b>	<b>7.3%</b>	<b>7.8%</b>
<b>Total Metropolitan Area</b>	<b>1,864,241</b>	<b>1,967,784</b>	<b>2,103,171</b>	<b>5.6%</b>	<b>6.9%</b>

Metropolitan Washington Council of Governments, Route 8.0 Cooperative Forecasts, December 2010

As the table above indicates, household growth in the area proceeded at 5.6% in total between 2005 and 2010, and the pace of growth between 2010 and 2015 is expected to be 6.9%. In comparison to population growth, the higher rate of household growth indicates that the region is experiencing a decline in average household size. This is particularly evident in Washington, DC, where the pace of household growth was 4.6% from 2005 to 2010, versus 4.0% population growth. As mentioned previously, much of the growth in the District is accommodated by multi-family dwellings in locations close to the downtown area, which would suggest that many of the newly formed households are singles or couples. With the exception of the higher rate of growth, patterns of household growth in the area are generally similar to those associated with the population.

## Employment

Employment in the metropolitan area is widely supported by the United States Government and the large number of government contractors located in the region. This figure had been slowly declining as the local economy diversified, but more recently (since 2001) the volume of government activity and spending in the area, particularly in the realm of national security, has increased.

At the same time, however, the D.C. metropolitan area has emerged from its former status of being oriented purely toward government, to being one of the primary metropolitan areas in the United States economy. The area has become a national and regional center for such fields as communications and biomedical research, and has solidified its already strong position in high technology research and development. The area lacks a well developed manufacturing base, but as industries based on information technology have matured and become a standard facet of the world economy, the lack of manufacturing has become less of a deficiency.

### FORECASTED EMPLOYMENT GROWTH WASHINGTON, DC METROPOLITAN AREA, 2005 - 2015

	2005	2010	2015	% Increase	
				2005-2010	2010-2015
<b>Washington, DC</b>	<b>750,245</b>	<b>785,963</b>	<b>822,911</b>	<b>4.8%</b>	<b>4.7%</b>
<b>Suburban Maryland</b>					
Montgomery County	500,000	506,000	540,000	1.2%	6.7%
Prince George's County	347,885	358,385	370,135	3.0%	3.3%
Frederick County	122,162	142,412	151,456	16.6%	6.4%
Calvert County	32,431	35,200	41,097	8.5%	16.8%
Charles County	58,552	62,199	68,405	6.2%	10.0%
Total Suburban Maryland	<b>1,061,030</b>	<b>1,104,196</b>	<b>1,171,093</b>	<b>4.1%</b>	<b>6.1%</b>
<b>Northern Virginia</b>					
Arlington County	195,158	205,175	218,214	5.1%	6.4%
City of Alexandria	105,750	108,895	117,666	3.0%	8.1%
Fairfax County	639,331	680,041	725,524	6.4%	6.7%
Loudoun County	125,594	143,736	167,570	14.4%	16.6%
Prince William County	139,429	144,532	166,671	3.7%	15.3%
Stafford County	<u>35,579</u>	<u>42,129</u>	<u>48,626</u>	<u>18.4%</u>	<u>15.4%</u>
Total Northern Virginia	<b>1,240,841</b>	<b>1,324,508</b>	<b>1,444,271</b>	<b>6.7%</b>	<b>9.0%</b>
<b>Total Metropolitan Area</b>	<b>3,052,116</b>	<b>3,214,667</b>	<b>3,438,275</b>	<b>5.3%</b>	<b>7.0%</b>

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Metropolitan Washington Council of Governments, Route 8.0 Cooperative Forecasts, December 2010



These long term growth projections highlight the area's economic strength: In 2000, the area had an estimated total of over 2.8 million jobs, which represented growth of about 340,000 during the 1990 to 2000 decade. The table estimates that an additional 160,000+ jobs have been added between 2005 and 2010, and forecasts additional growth of about 224,000 jobs during the following five years.

Of course, the projected rate of job growth is strongly dependent on the performance of the economy during the next several years. Employment was affected by the 2008/2009 recession, but has grown in 2010. According to the US Bureau of Labor Statistics, total employment in the Washington MSA peaked in July 2008 at 2,992,566, and then declined to 2,825,229 by February 2010, a loss of about 167,000 jobs. [Note: the source of these employment figures is the BLS, and reflects their definition of the Washington, DC MSA, which may differ from the source and definition represented in the table above, resulting in some variation in job counts.] Since that time, however job growth has turned positive in the DC metropolitan area, adding over 60,000 jobs to total 2,885,822 as of December 2010. Nevertheless, total employment is still more than 100,000 lower than it was in mid-2008.

### **Unemployment Rates**

The declining performance of the economy in the United States has resulted in a rapid increase in national unemployment rates, from 4.9% in January 2008 to 8.8% in March 2011.

According to the Bureau of Labor Statistics, the unemployment rate in the Washington MSA was 3.5% in January 2008, peaked at 6.9% in January 2010, and has begun to decline, arriving at 5.8% as of March 2011. In the District, the unemployment rate was 6.6% in January 2008, and increased to 10.7% in January 2011, declining since then to 10.0% in March 2011. In comparison to the entire United States, these rates reflect greater stability in employment and they serve as further evidence of the positive influence the federal government has on the stability of the local economy. Nevertheless, although the trend in unemployment rates is currently downward, these data reflect that declining economic conditions in the US have had a negative impact locally.

## **ENVIRONMENTAL FACTORS**

### **Local Linkage**

The metropolitan area is served by a wide array of transportation linkages. The area's highway system is very well developed, with Suburban Maryland and Northern Virginia enjoying a number of major arterial connections with Washington, D.C. These include Interstates 95 and 66 in Virginia, I-270 in Montgomery and Frederick Counties, and I-95 and Route 295 in Prince George's County. Despite the well developed highway network, rush hour traffic in the area is horrific, with most commuters reporting an average of over 45 minutes drive time to work each day. Consequently, a premium is placed on locations with close proximity to Metrorail. This extensive subway system encompasses five lines, and serves D.C., Arlington, Alexandria, Fairfax County, Montgomery County, and Prince George's County. Additional public transportation is provided by the area's Metrobus system. Both of these major systems are operated regionally by the Washington Metropolitan Area Transit Authority.

### **Regional Linkage**

Linkage of the metropolitan area to other nearby regions is provided by a number of major highways and transportation systems. Three major interstate highways, I-95, I-66, and I-270, link Washington with the northeast and southeast United States (I-95), the south (I-66 to I-81), and the mid-west (I-270 to I-70). Washington is also served by Amtrak at Union Station in the downtown area, allowing frequent train travel to Baltimore, Philadelphia, and New York, as well as connections to most other areas of the country. The area is also served by three major airports, including Washington National Airport in Arlington, Dulles International Airport in Northern Virginia, and Baltimore-Washington International Airport off of I-295 near Baltimore.

### **Implications for the Subject Property**

The United States experienced a recession which began in late 2007/early 2008, and lasted through the second quarter of 2009. Economic growth began again in the third quarter of 2009, and accelerated in the fourth quarter, signaling the end of the recession. Nevertheless, the impact of the recession remains negative, and economic performance in the United States, the Washington, DC metropolitan area, and in the District of Columbia, is still lagging in some respects. Most economists predict that these weak economic patterns will persist through 2011.

The primary benefit which the subject experiences is its location in the Washington, DC metropolitan area. Due to the presence of the federal government, this region typically enjoys much greater stability during times of economic turmoil, and that has remained true during the 2008-2009 recession. While employment has been largely stagnant throughout much of the US, the DC area has enjoyed some substantial job growth during 2010. This has resulted in growth in the area's population and households, which has in turn stabilized, and in some cases re-introduced growth, into the area's housing sector. Over the long term, prospects for the subject are considered to be positive due to the stable economic characteristics of the Washington, DC region. Short-term, the picture is mixed due to congressional efforts to cut the budget deficit and long-term debt, and the uncertainty this poses for government and contractor demand for office space.

**NEIGHBORHOOD ANALYSIS****GENERAL INFORMATION**

The subject property is located in Federal Triangle, adjacent to the East End Submarket, which is just east of the CBD area of downtown Washington, DC. The boundaries of the East End are roughly 3<sup>rd</sup> Street, NW to the east, Pennsylvania Avenue to the south, 15<sup>th</sup> Street to the west and M Street, NW to the north. The neighborhood is in the late stages of gentrification and is 100% built out. Several of the major thoroughfares, such as K Street, Connecticut Avenue, Pennsylvania Avenue and New York Avenue, offer some of the highest profile addresses in the area. These locations are clustered east of the White House. Historically, this has resulted in strong demand for office space, and this submarket typically exhibits rents at the high end of the range for the Washington area.

**NEIGHBORHOOD MAP**

The East End neighborhood has experienced a dramatic transformation over the last fifteen years following the development of the Verizon Center (which is located between 6<sup>th</sup> and 7<sup>th</sup> Streets north of F Street). In addition to the commercial stimulus provided by the Verizon Center, the area has benefited from the steady growth in occupied space and the tremendous increase in property values in downtown Washington DC since the mid-1990's. As available sites in the CBD and along Pennsylvania Avenue were built out, the East End was a logical

area for redevelopment and new development of higher density and higher end uses. Another major development in the neighborhood is Gallery Place which was completed in 2005. Located just north of Verizon Center, Gallery Place is 1.5 million square feet of office, retail, and residential space. Given the development of new residential units in the neighborhood, this part of the East End has become a 24-hour location due to the influx of new residents.

Transportation Linkage: Primary thoroughfares in the neighborhood include New York Avenue, Pennsylvania Avenue, Connecticut Avenue, K Street, E Street, and Constitution Avenue. These roadways provide access to other major thoroughfares such as I-395 and I-295, ultimately providing vehicular access to Maryland in the north and east, or Virginia in the south and west.

Rail service in the subject's neighborhood is very good as well. Washington DC's Union Station is a major presence in the downtown area, located west of the subject in Capitol Hill, near the US Capital. This is a primary station for Amtrak service within the northeast corridor, and a station for the Metrorail's red line. The subject's immediate vicinity is served by Metrorail, with the closest station, Federal Triangle, located across the street to west at 12<sup>th</sup> Street and Pennsylvania Avenue.

Development Patterns: Office space is the primary type of development in the area, including not only privately owned office buildings, but also many major US government agencies. During weekdays, the area is heavily populated with office and government workers. The office oriented businesses also attract a large number of street level retail and restaurant businesses, as well as luxury and business hotels. The downtown area also supports a number of national monuments and museums, most notably the Washington Monument, the Vietnam Memorial, the White House, the Lincoln Memorial, and many of the Smithsonian Institute museums as well. Hotels are a fairly common use in the area as well, with their demand profiles being oriented to business, government/politics, and the substantial amount of tourism attracted to Washington, DC.

Due to the orientation of the neighborhood as primarily a business location, there is limited residential activity. However, as Washington, DC has made more of an effort to create a "living downtown", and as the residential market in the metropolitan area has grown, there have been scattered redevelopment projects in the area offering residential apartments and condominiums. These tend to be at the high end of the price range in the area for this type of product, in keeping with the central location. None are located in the immediate vicinity of the subject, but are concentrated closer to Chinatown and Mount Vernon Square.

The immediate subject vicinity is known as Federal Triangle, as the subject and all surrounding buildings are federally owned offices occupied by the IRS, Justice Department, Commerce,

and other agencies. The triangle is roughly formed by Pennsylvania Avenue to the north, 15<sup>th</sup> Street on the west, and Constitution Avenue to the south. The Hoover Building, headquarters of the FBI, is located between 9<sup>th</sup> and 10<sup>th</sup> Streets, north of Pennsylvania Avenue. The US Capitol is located 10 blocks east of the subject, and the White House is five blocks to the west. The National Mall, home to numerous national museums and monuments, is located one block south of the property.

#### **IMPLICATIONS FOR THE SUBJECT PROPERTY**

The subject neighborhood benefits from an established base of office users, served by a well developed transportation network and proximity to the major installations of the United States government. The expansion of the residential market in the area has also fueled retail development in the area. Future prospects are good for continued demand from office and retail users due to the area's outstanding neighborhood characteristics, and projections for economic growth in the greater Washington metro area.

**OFFICE MARKET ANALYSIS****Washington, DC Metropolitan Area**

According to CoStar, as of September 2011 the Washington, DC metropolitan area office market has a total inventory of over 456 million square feet, with overall vacancy of 11.9% (not including sublet space). The vacancy rate is 12.9% with the inclusion of sublet space. Vacancies for the area had been below 10% prior to the 2008/2009 recession, but steadily increased to a peak of 12.4% in the 2<sup>nd</sup> quarter of 2010. Since that time, vacancies have gradually declined, arriving at a level below 12% in the current quarter.

The following table illustrates the differences in inventory and vacancy between the District and the surrounding suburban locations:

<b>AVAILABILITY AND VACANCY ANALYSIS WASHINGTON, D.C. MSA OFFICE SPACE - AS OF SEPTEMBER 2011</b>					
<b>County</b>	<b>Existing SF</b>	<b>Vacant SF</b>	<b>Vacancy %</b>	<b>Average FS Rent</b>	<b>Absorption YTD 2011</b>
Alexandria	20,947,312	2,743,937	13.1%	\$30.86	(296,814)
Arlington	39,412,495	3,257,727	8.3%	\$40.94	(301,578)
Fairfax *	117,391,494	15,905,890	13.5%	\$29.11	858,381
Loudoun	16,889,355	2,529,199	15.0%	\$24.43	335,236
Prince William**	9,364,634	1,313,185	14.0%	\$21.84	56,905
Total Northern Virginia	204,005,290	25,749,938	12.6%		652,130
Frederick	8,685,298	1,364,812	15.7%	\$22.94	(53,414)
Montgomery	68,706,926	8,527,346	12.4%	\$28.78	9,110
Prince George's	26,409,503	4,521,920	17.1%	\$20.84	(61,068)
Total Suburban Maryland	103,801,727	14,414,078	13.9%		(105,372)
<b><u>District of Columbia</u></b>	<b><u>148,237,025</u></b>	<b><u>14,176,095</u></b>	<b><u>9.6%</u></b>	<b><u>\$49.10</u></b>	<b><u>1,713,839</u></b>
Total D.C. MSA	456,044,042	54,340,111	11.9%	\$34.00	2,260,597

\*Includes Falls Church & Fairfax City; \*\*Includes Manassas & Manassas Park.

Washington, DC supports the greatest amount of office space of any single jurisdiction, with over 148 million square feet. Its vacancy rate, at 9.6%, is second lowest in the metropolitan area, behind Arlington, VA. More importantly, Washington, DC experiences the highest Class A rental rates in the area, at \$49.10 per s.f., full service. The District has also experienced 1,713,839 square feet of positive absorption thus far in 2011, which comprises almost 75% of the total increase in office demand for the entire metropolitan area. Absorption in the remaining area jurisdictions has been mixed, with many experiencing negative demand during 2011.

Northern Virginia is the largest of the three major submarkets, with a total inventory of 204.0

million s.f. Suburban Maryland is the smallest office submarket of the three with 103.8 million total s.f. in its inventory. Of the major suburban jurisdictions, Arlington, VA appears to be the healthiest, with a vacancy rate of 8.3%. Its average Class A rental rate, at \$40.94 per s.f., is the highest among the suburban jurisdictions, but well below the average for D.C.

### **Downtown Washington**

Generally speaking the office market in downtown DC has been very strong during the past several years. Office market conditions in the downtown area, which includes the CBD, NoMA, East End, Capitol Hill, Southwest, West End, and Georgetown submarkets, as of September 2008, are summarized below:

#### **DOWNTOWN WASHINGTON, DC**

<b><u>Building Class</u></b>	<b><u>Space Inventory</u></b>	<b><u>Direct Vacancy</u></b>		<b><u>Vacancy w/Sublet</u></b>		<b><u>Avg. Asking Rental Rate</u></b>	<b><u>Absorption YTD 2011</u></b>
		<b><u>SF</u></b>	<b><u>%</u></b>	<b><u>SF</u></b>	<b><u>%</u></b>		
Class A	79,030,439	8,613,788	10.9%	9,478,317	12.0%	\$53.97	1,846,824
Class B	41,272,772	3,176,513	7.7%	3,515,339	8.5%	\$44.98	(327,955)
Class C	7,296,911	311,629	4.3%	316,404	4.3%	\$38.27	(20,215)
Total	127,600,122	12,101,930	9.5%	13,310,060	10.4%	\$50.75	1,498,654

This information indicates that the market in the area is healthy, with an overall vacancy rate of 9.5% (excluding sublet space), and rents which average over \$50.75 per square foot on a full service basis. The downtown vacancy rate increased to a level near 10% in 2009 (reaching 9.8% in the 3<sup>rd</sup> quarter), but since then it has declined to its current level. Asking rents have been generally stable, exhibiting a moderate increase since a low point of \$49.01 FS, reached in the 2<sup>nd</sup> quarter 2009.

**Rental Rates:** Reflecting continued tight market conditions and a gradual increase in the Class A inventory due to new construction, office rents are relatively high in downtown Washington. According to CoStar, the current average asking rent in the downtown area is \$50.75 per s.f., on a full service basis. This is generally consistent with the average rate as of the 3<sup>rd</sup> quarter of 2010 (\$50.85), but higher than the average rate of the 3<sup>rd</sup> quarter 2009 (\$49.13). Class A rents currently average \$53.97 per s.f., full service, while B and C rents average \$44.98 and \$38.27, respectively.

**Absorption and New Construction:** The following table indicates patterns of absorption and new construction in the downtown area since 2009, according to CoStar. In general, 2009 experienced negative absorption, most likely due to the effects of the recession, combined with a substantial amount of new delivery of office space. Much of the space deliveries occurring during that year were the result of projects which were approved, financed, and commenced in prior years, before the recession became apparent.



	<u>YTD 2011</u>	<u>2010</u>	<u>2009</u>
Net Absorption	1,498,654	2,999,882	(149,342)
New Construction	520,025	2,646,251	2,952,915
Absorption - Construction	978,629	353,631	(3,102,257)

The result was an increase in vacancies during 2009. Since that time, however, absorption has become positive, with nearly 3 million square feet absorbed in 2010, and about 1.5 million absorbed so far in 2011. The pace of new construction remained strong in 2010, though net absorption exceeded the pace of construction during that year. In the first three quarters of 2011 the pace of net absorption, still positive, declined, though the pace of new construction declined to a greater extent. The result, during the past two years, has been a decline in office vacancy rates in downtown Washington, DC.

### **East End Submarket**

The subject is located in the East End submarket of Washington, DC, which is generally bounded by the National Mall to the south, P Street, NW to the north, 14<sup>th</sup> Street, NW to the west, and 3<sup>rd</sup> Street, NW to the east.

In past decades, the East End was primarily considered to be a shopping and entertainment district in downtown Washington, which fell into disfavor during the 1960s and 1970s. At that time, the primary location for downtown office space was the CBD, located directly to the west of the East End. As demand for office space in downtown Washington grew, however, the District made the East End area available for removal of older low and mid-rise buildings, and redevelopment with new office space. The ability to construct new buildings with large floor plates, combined with proximity to Federal and District government offices, extensive Metrorail service with multiple stations, and a growing entertainment district focused around the Gallery Place area, made this an attractive location for new office development. As a result, the office inventory in the East End has grown substantially, and has a high concentration of new, Class A buildings. The following table profiles the office market in the East End:

<b>EAST END SUBMARKET</b>							
<u>Building Class</u>	<u>Space Inventory</u>	<u>Direct Vacancy</u>		<u>Vacancy w/Sublet</u>		<u>Avg. Asking Rental Rate</u>	<u>Absorption YTD 2011</u>
		<u>SF</u>	<u>%</u>	<u>SF</u>	<u>%</u>		
Class A	32,693,688	3,019,635	9.2%	3,344,305	10.2%	\$58.89	44,643
Class B	11,570,810	1,036,612	9.0%	1,187,846	10.3%	\$47.76	(53,827)
Class C	2,426,170	122,897	5.1%	124,522	5.1%	\$38.58	11,726
Total	46,690,668	4,179,144	9.0%	4,656,673	10.0%	\$54.67	2,542

In general, vacancy rates in this submarket are lower than in the remaining areas of downtown Washington, and rental rates are slightly higher than the downtown office market. The

submarket is very popular with non-profits and trade associations seeking easy access to Congress. These tenants are usually small, in the range of 3,000 to 5,000 square feet, and prefer lower cost Class A/B space. For these reasons, the vacancy rate has historically been very low, and rent growth has remained consistent.

Rental Rates: According to CoStar, the current average asking rent in the East End submarket is \$54.67 per s.f., on a full service basis. Class A rents currently average \$58.89 per s.f., full service, while Class B rents average \$47.76. Rents have increased during the past two years in the submarket. As of the beginning of 2010, the average asking rent in the East End was \$51.90, and the current average of \$54.67 equates to an increase of about \$2.75 per square foot. In comparison to the other submarkets in Downtown Washington, the East End has the highest average asking rental rate. Asking rates for Class A space, as noted above, average \$58.89 per s.f., but range as high as \$74.00 per s.f., on a full service basis, and as high as \$58.00 NNN.

Absorption and New Construction: The local submarket has experienced positive net absorption since 2009, but the amount of increase in demand has been limited, totaling only about 180,000 square feet during that period.

	<u>YTD 2011</u>	<u>2010</u>	<u>2009</u>
Net Absorption	2,542	140,222	38,371
New Construction	169,038	-	810,843
Absorption - Construction	(166,496)	140,222	(772,472)

At the same time, deliveries have been somewhat limited, with three new buildings being delivered in 2009, none in 2010, and only one thus far in 2011. As a result, vacancy rates have increased slightly; the average vacancy rate for East End office space was 7.6% at the beginning of 2009, and it has increased to 9.0% currently.

At the present time, according to CoStar, seven buildings are either under construction or under renovation in the East End, totaling 588,307 square feet. This will add less than 2% to the existing inventory of office space. There are also seven buildings proposed in the submarket, which would add a total of 2,325,034 square feet.

### **Renovated Office Rent Comparables**

The following table lists six historic buildings which have been renovated for office use in the East End. These properties provide the most reliable indication of potential rent for office space in the subject property, assuming that it was fully renovated to Class A status.

No.	Name/Address	Yr Blt	Size (SF)	Occup.	Available Spaces (SF)	Term	Rent Range/SF	Expenses	TI/SF
1	<b>The Homer Building</b> 601 13th St, NW Ren. 1990 The Homer Building has a comparable floor plan to the Old Post Office, in that it has a full central atrium with a skylight. Office space is arranged around the atrium. This Class A building was renovated in 1990, is 12 stories, and has ground floor retail space. Located directly above the Metro Center station, and offers below grade parking.	1914	421,084	96.1%	5,135-38,490	5-10	\$44.00-\$54.00	NNN	As-Is
2	<b>The Evening Star Building</b> 1101 Pennsylvania Ave, NW Ren. 1989 Originally constructed as the offices for the Evening Star newspaper, located directly opposite the Old Post Office Building. Fully renovated in 1989, listed on the National Register of Historic Places. Underground parking, \$270 per month. Sold 6/2010 for \$820/SF.	1889	219,627	100.0%	1,420-26,340 3,556	NA NA	\$45.00-\$49.50 \$58.00	NNN FS	Some Work
3	<b>The Woodies Building</b> 1025 F Street, NW Ren. 2004 This is the former Woodie's department store building, renovated into office space in 2004. The façade is on the National Historic Registry. Typical floor size is 46,000 s.f. The building has 200 on site parking spaces.	1902	498,920	97.4%	3,866-13,000	3-5	\$53.00	FS	As-Is
4	<b>Hamilton Square</b> 600 14th Street, NW Ren. 1999 A "historic landmark" building completed in 1929, fully renovated 1999. Typical floor plate size is 26,600 s.f., and the property has a limited amount (125 spaces) of below grade parking. Located 2.5 blocks from Metro Center.	1929	246,392	95.2%	3,969-7,843	5-10	\$42.00	NNN	Some Work
5	<b>The Colorado Building</b> 1341 G Street, NW Ren. 1988 This is a historic "Beaux Arts" building, located at the intersection of 14th and G Streets, about two blocks north of Pennsylvania Avenue. This building has no parking on site, but has an arrangement with an adjacent building to provide parking. The typical floor size is small, reported at 11,600 s.f.	1903	121,701	90.9%	11,124	5-10	\$48.50	FS	Some Work
6	<b>The Tower Building</b> 1401 K Street, NW Ren. 1997 This building is located at the corner of 14th and K Streets, across from Franklin Square, and close to the McPherson Square Metro station. The building has a typical floor size of 8,983 s.f., with an odd configuration due to a central core with a small amount of space, between two small wings which comprise most of the space.	1929	124,706	92.8%	4771-9010	3-10	\$44.50-\$48.50	FS	Some Work
Total / Average									



These buildings exhibit asking rates ranging from about \$45.00 per s.f. full service, to a high of about \$54.00 per s.f., NNN. We note that office buildings in downtown Washington are offered for rent most often on either a full service or NNN (net, net, net, or “triple net”) basis. Under a full service lease, all operating expenses are paid for by the landlord with recovery only of increases in expenses during the term of the lease. Under a NNN lease, all operating expenses are recovered by the landlord from the tenant annually. Full service leases, therefore, tend to result in significantly higher rents, because the tenants are not subject to expense recoveries which are nearly as substantial as those under NNN leases.

In our opinion, the most comparable properties to the subject, assuming a major renovation, would be the Homer Building and the Evening Star building, which exhibited rates ranging from \$44.00 to \$54.00 per s.f., NNN. It is our opinion that rental rates at the subject, if renovated, would most likely be at the low end of that range, due primarily to the poor configuration of office space resulting from the retention of the atrium and the corridors. Based on these indications, it would appear that fully renovated above grade office space in the Old Post Office building could most likely rent for an average of about \$45.00 per s.f., NNN.

### Typical Core Factor

For modern office buildings in downtown Washington, DC, the typical core factor is often lower than that for historic buildings, or buildings with a public service orientation, both of which describe the subject. The following table indicates the core factor for office buildings in the East End submarket constructed 1990 or later, which reported their core factors:

Building Address	Year Built	Net Rentable Area	Typical Floor Size	% Leased	Core Factor (%)
1152 15th St NW	2007	393,815	32,500	81.9	13.5
1301 K St NW	1990	594,431	52,370	75.9	12.5
1310 G St NW	1991	195,711	15,923	99.3	10.5
700 6th St NW	2009	300,000	21,983	91.8	14.5
700 11th St NW	1991	310,684	25,382	100.0	12.7
1099 14th St NW	1992	440,874	40,364	95.6	14.0
1201 Eye St NW	2001	269,299	23,375	100.0	11.0
1200 G St NW	1991	183,808	17,627	89.0	11.9
1401 H St NW	1992	350,635	29,232	92.0	11.0
1501 M St NW	1991	177,525	15,474	94.6	10.0
1099 New York Ave NW	2008	174,705	17,000	97.5	16.9
1399 New York Ave NW	2001	122,922	11,864	82.1	15.0
701 Pennsylvania Ave NW	1990	357,142	39,000	92.7	17.0
801 Pennsylvania Ave NW	1990	346,855	39,000	92.3	17.0
325 7th St NW	1991	169,542	16,000	97.7	16.0
800 10th St NW	2013	246,424	24,744	-	9.1
850 10th St NW	2013	249,200	24,942	-	9.1
<b>Average</b>		<b>287,269</b>	<b>26,281</b>	<b>81.3</b>	<b>13.0</b>

It has been our experience that, for modern office buildings, core factors tend to range between 10% and 15%, and average around 12% to 13%. The buildings in the table shown above indicate an average core factor of 13.0%.

The implications of the subject's higher core factor, in regard to property value, are discussed as part of our estimate of market rent (P. 124) and as part of our analysis of the property's Highest and Best Use (Pps 145-157).

### **Conclusion**

The subject property is located in one of the most sought after neighborhoods in Washington, DC, has good road accessibility, Metrorail service, and is within the National Mall corridor between the White House and the Capitol. Overall this is a stable and highly desirable neighborhood with strong demand for a variety of uses, and the future prospects for the subject property are, therefore, very good. We would expect the property to remain well occupied, at rents which are at the higher end of the range for the metropolitan area.

**RETAIL MARKET ANALYSIS****MARKET OVERVIEW**

The following statistics are taken from a September 2011 survey provided by CoStar. The combined surveys for the District of Columbia and the surrounding suburban counties comprise a total inventory of 221,399,250 square feet of space, with an overall vacancy rate of 4.6%, excluding sublet availability (see the following table). Including sublet space, the vacancy rate is 4.8%. The table below outlines the current vacancy rates among the jurisdictions of the Washington, DC area.

**AVAILABILITY AND VACANCY ANALYSIS  
WASHINGTON, D.C. MSA  
RETAIL SPACE - AS OF SEPTEMBER 2011**

<b>County</b>	<b>Existing SF</b>	<b>Vacant SF</b>	<b>Vacancy %</b>	<b>Average nnn Rent</b>	<b>Absorption YTD 2011</b>
Alexandria	7,646,622	265,321	3.5%	\$31.52	(25,382)
Arlington	7,578,089	163,542	2.2%	\$29.84	(24,442)
Fairfax *	48,183,521	1,375,766	2.9%	\$27.50	157,592
Loudoun	16,244,346	1,064,723	6.6%	\$27.14	(49,693)
Prince William**	24,388,019	1,619,586	6.6%	\$18.76	(51,740)
Total Northern Virginia	104,040,597	4,488,938	4.3%		6,335
Frederick	12,827,878	610,353	4.8%	\$17.14	544,372
Montgomery	42,776,039	1,849,357	4.3%	\$24.97	70,161
Prince George's	41,340,537	2,357,809	5.7%	\$17.73	147,297
Total Suburban Maryland	96,944,454	4,817,519	5.0%		761,830
<b><u>District of Columbia</u></b>	<b><u>20,414,199</u></b>	<b><u>975,870</u></b>	<b><u>4.8%</u></b>	<b><u>\$36.70</u></b>	<b><u>53,644</u></b>
Total D.C. MSA	221,399,250	10,282,327	4.6%	\$24.26	821,809

\*Includes Falls Church & Fairfax City; \*\*Includes Manassas & Manassas Park.

Fairfax, Montgomery and Prince George's Counties have the largest retail markets, according to the survey, and most of the retail space included in CoStar's survey is located in the suburban markets around Washington, DC, in Northern Virginia or Suburban Maryland. The District of Columbia is a secondary submarket for retailers as indicated by the size of its inventory. These patterns reflect the fact that the majority of households in the area reside in suburban counties as opposed to urban areas within the District or comparable areas such as the City of Alexandria or Arlington County.

The District of Columbia also features vacancy rates slightly above the overall rate for the metropolitan area, although the average rental rate is the highest in the area. Although many national retailers have avoided urban locations for the past thirty years, many have realized the potential for new development and are expanding into downtown Washington to serve its substantial employment base, or into more residential areas of Washington, DC which are

undergoing gentrification. Loudoun and Prince William Counties are currently experiencing the highest vacancy rates in the area, at 6.6%. Vacancy rates for the region were relatively stable from 2005-08 ranging from 3.2% to 4.1%. Vacancies increased during the 2008/2009 recession, peaking at 5.0% in the 2<sup>nd</sup> quarter of 2010. Recently absorption has turned positive in the region, and vacancy rates have begun to decline. Asking rental rates have been stable to slightly declining during the past several years due to the impact of the 2008/2009 recession and its aftermath.

### **East End Submarket**

In order to gauge the level of demand for retail space at the subject property, we have considered recent trends in the East End submarket, which includes the subject's location. The following statistics indicate the performance of this market.

**AVAILABILITY AND VACANCY ANALYSIS  
EAST END SUBMARKET OF WASHINGTON, DC  
RETAIL SPACE - AS OF SEPTEMBER 2011**

<u>Existing SF</u>	<u>Vacant SF</u>	<u>Vacancy %</u>	Average	Net Absorption		
			<u>NNN Rent</u>	<u>YTD 2011</u>	<u>2010</u>	<u>2009</u>
1,358,498	69,612	5.1%	\$41.00	6,543	36,523	(6,691)

The East End has been established as one of the District's primary shopping areas for many years. During the period between the 1960's and 1970's, however, demand for retail space in the area waned as demographic trends resulted in a shift of retail shopping to suburban locations. That trend began to reverse during the past 10 to 20 years, as the office market in Washington has increasingly moved into the East End, and as the District government has encouraged new residential development in the area. As a result, retail demand has strengthened, and new retail development has re-emerged. In particular, the areas around the Metro Center and Gallery Place Metro stations have become hubs of retail, restaurant, and entertainment activity. The area on the north side of the Pennsylvania Avenue corridor, sometimes known as "Penn Quarter", also supports a substantial base of retail activity. While vacancies in the submarket are slightly higher than average at the present time, they have declined since peaking in early 2008 at around 15%. Average asking rental rates increased substantially from around \$39 per s.f., NNN in early 2008, to around \$46-47 per s.f. in late 2009. Since that time, however, asking rental rates have fallen by more than \$5.00 per s.f. to the present average of \$41.00 per s.f., NNN. Nevertheless, this rate substantially exceeds the average asking rate for the District as a whole. According to CoStar, current asking rents in the East End, on a NNN basis, range from \$22.00 per s.f., to as high as \$65.00 per s.f.

**Subject's Immediate Vicinity**

As noted previously, the subject property is located within the northwest quadrant of downtown Washington, in the Pennsylvania Avenue, corridor between 10<sup>th</sup> and 12<sup>th</sup> Streets, NW. In the subject's immediate vicinity, retail space is typically located in the first floor of high rise buildings, with storefronts common on most of the streets in the area. Generally speaking, this space is designed to serve the office workers in the area during weekdays, as well as tourists and metro area residents in the evenings and on weekends. In order to gain a clearer picture of retail activity in the immediate area, we have surveyed properties north of the National Mall, south of H Street, NW, between 3<sup>rd</sup> and 15<sup>th</sup> Streets, NW. The results are shown below:

**AVAILABILITY AND VACANCY ANALYSIS  
EAST END, N. OF MALL, W. OF 15TH ST, S. OF H ST, & W. OF 3RD ST  
RETAIL SPACE - AS OF SEPTEMBER 2011**

<u>Existing SF</u>	<u>Vacant SF</u>	<u>Vacancy %</u>	<u>Average NNN Rent</u>	<u>Net Absorption</u>		
				<u>YTD 2011</u>	<u>2010</u>	<u>2009</u>
583,698	8,992	1.5%	\$42.35	1,881	28,906	1,633

The retail market in the area is limited, due to its nature as first floor, storefront space. Demand is strong, as indicated by the vacancy rate of only 1.5%, and the average asking rate of \$42.35 per s.f., NNN, which exceeds the average for the East End and for the District. Absorption has been generally positive during the past three years, and like the East End submarket, vacancy rates in the area have declined substantially since late 2008 / early 2009. Average asking rates, while high relative to surrounding areas, have declined during the past one to two years.

**Retail Market Analysis Conclusion**

The subject is located in the East End submarket of Washington, DC, which supports a substantial amount of retail space serving employees, tourists, and residents of the metropolitan area. Restaurants and convenience retail is common in the area, and most retail spaces have a street level storefront orientation. The subject, specifically, occupies an identifiable location along Pennsylvania Avenue, in a building which not only has office space on the upper floors, but also houses a major D.C. tourist attraction in the Old Post Office Clock Tower. The building is also in close proximity to a large number of federal offices, as well as a number of Smithsonian museums which attract large numbers of tourists. Overall, this is a highly accessible location, which enjoys a high level of pedestrian and vehicular traffic. Continued strong demand for retail space in this location is to be expected.



## **HOTEL AND CONVENTION MARKET ANALYSIS**

Washington, DC, being the home of the United States Government, attracts a very substantial amount of regional, national, and international conference and meeting activity serving the US and foreign governments, associations, and businesses engaged in activities oriented to the government. In addition, the area has an active tourism market, oriented to United States monuments, historic government buildings, and museums, especially the Smithsonian Institution, which bills itself as the world's largest museum complex and research organization. Finally, the Washington, DC region, as noted previously in this report, is home to some 5.25 million people, with a growth rate of over 1.0% per year. All of these factors combine to create a large and growing market for hotel and meeting space in the DC area.

### **Meeting and Convention Data**

Destination DC (Washington.org), the Washington DC convention and visitors authority, reports the following facts about meeting and convention activity in the District of Columbia:

- In 2007, Washington DC hosted 830 convention groups, of which 55 were at the Walter E. Washington convention center. These meetings attracted 600,000 attendees, accounting for an estimated 950,000 hotel room nights and nearly \$700,000,000 in spending.
- There is more than 4 million square feet of meeting and convention space in the Washington region, with 2.2 million square feet within the District.

The largest venue is the Walter E. Washington Convention Center. This facility has 730,000 s.f. of exhibit space, 150,000 s.f. of meeting space in 67 meeting rooms, a 52,000 s.f. ballroom, and 36,000 s.f. of registration space.

Other major meeting facilities in Washington, DC include:

- The DC Armory, which has 118,000 s.f. of exhibit space and 2 meeting rooms
- The Ronald Reagan Building and International Trade Center, which has 65,000 s.f. of exhibit space and 22 meeting rooms
- Marriott Wardman Park, a 1,332 room hotel with 173,000 s.f. of event space
- Hilton Washington, a 1,201 room hotel with 110,000 s.f. of event space
- Grand Hyatt Washington, a 925 room hotel with 40,000 s.f. of event space
- Omni Shoreham Hotel, an 834 room hotel with 100,000 s.f. of event space
- Renaissance Washington DC, an 820 room hotel with 60,000 s.f. of event space.

In addition, numerous hotels in the District have smaller amounts of meeting and event space,

allowing for the ability to accommodate a wide range of event types and sizes in a variety of venues and locations.

The ten largest conventions in Washington, DC in late 2010 and 2011 are summarized in the following table:

<b>Group</b>	<b>Attendance</b>	<b>Total Room Nights</b>
American Urological Association	15,000	53,485
Biotechnology Industry Organization	16,000	48,226
American College of Surgeons	15,000	42,500
American Water Works Association	14,000	29,570
Federation of American Societies for Experimental Biology	14,000	29,570
National Association for the Specialty Food Trade	25,000	22,495
American College of Obstetricians and Gynecologists	14,000	20,688
Omega Psi Phi Fraternity	7,000	20,520
National Association of Realtors	10,000	20,332
American Psychological Association	14,000	17,200

Meeting space is primarily a component of hotels, as noted above, except for space included in the Washington Convention Center and the Reagan building. However, a number of office buildings in Washington, DC have conference facilities available to tenants of the building. To determine the extent of this, we searched CoStar listings for office buildings of 50,000 square feet and larger, located in downtown Washington, DC. The search revealed a total of 471 buildings meeting these criteria. Of these, 34 included “Conferencing Facility” among the amenities offered to tenants. This equates to 7.2% of the buildings in the survey; rare as compared to hotels, but nevertheless an existing facet of the market.

### **Washington, DC Hotel Data**

According to Destination DC, the Washington convention and visitors authority, the general outlines of the hotel market in the District are summarized as follows:

- DC has approximately 116 hotel properties, with an estimated 27,800 hotel rooms, of which 4,635 rooms are within one mile of the Washington, DC convention Center.
- A major new convention center hotel, the Marriott Marquis, is under construction adjacent to the Washington Convention Center. It is expected to deliver in 2014, and is planned with approximately 1,200 rooms.
- In 2010, visitation in DC was estimated at about 17.3 million people, of which approximately 15.5 million are domestic, and 1.75 million are international. This represents an increase of about 5.9% over the statistics for 2009.

- Hotel average daily rates peaked in 2008 at about \$208 per room night, and declined by about 5% in 2009 due to the recession. While they have increased to about \$204 since that time, ADR's remain below the 2008 peak.
- Occupancy rates declined slightly from 74% in 2008 to 73% 2009, but since that time have increased to 77% through August 2011.

The following summarizes the performance of hotel statistics, as reported by Destination DC, for the years 2007 to 2010:

**HOTEL MARKET PERFORMANCE  
WASHINGTON, D.C.  
2007 - 2010**

	<b>2010</b>	<b>2009 *</b>	<b>2008</b>	<b>2007 *</b>
Total Room Inventory	9,921,036	9,862,905	9,604,991	9,604,991
Reported Rooms Used	7,351,488	7,179,188	7,088,483	7,088,483
Average Hotel Occupancy	74.1%	72.8%	73.8%	73.8%
Average Daily Rate (ADR)	\$201.73	\$198.55	\$208.45	\$204.36
Revenue Per Available Room (RevPAR)	\$149.53	\$144.61	\$153.89	\$150.87

Source: Destination DC; Washington.org

\* The estimates for 2009 are based on 2010 figures adjusted for the annual change indicated by Destination DC. The same is true for 2007, which is based on 2008 figures, adjusted.

The data indicate that average occupancy rates have been steady in the 73% to 74% range during the four year period, with ADRs increasing from \$204 to \$208 from 2007 to 2008, but declining to about \$199 in 2009 before rebounding to \$202 in 2010. According to recent reports, ADRs have increased to about \$204 thus far in 2011, with an occupancy rate of approximately 77%.

### **Indicated Performance of Potential Hotel Rooms at the Subject Site**

In order to evaluate the potential market for the hotel units planned for the subject, we have considered the characteristics of existing hotels with a similar orientation in the immediate vicinity of the Old Post Office building. The similarities reflected in these hotels reflect, primarily, older buildings with a historic ambiance and high quality renovations, and secondarily, location. The hotels are summarized in the table on the next page.

We have profiled nine hotels in the immediate area, totaling 2,720 guest rooms. All of the hotels have a 4 or 5 star rating by Expedia. Seven of the nine hotels are considered to be historic, and most were originally constructed in the early 1900s; the oldest is the Willard, originally constructed in 1904. All, however, are very well maintained with regular upgrades, and recent major renovations in several cases. Two of the hotels are more recent construction,

including the JW Marriott (1984) and the Mandarin Oriental (2004). These were selected to provide indications of the performance of hotels that incorporate a substantial amount of meeting and banquet space in the area around the subject.

**HISTORIC HOTELS - 4\* AND 5\* PROPERTIES  
DOWNTOWN WASHINGTON, DC  
SEPTEMBER 2011**

Property / Location	Meeting Space (SF)	Yr. Blt	# Rooms	Mid-Week Rates \1	
				Low	High
<b>Willard InterContinental Washington</b> 1401 Pennsylvania Avenue, NW Comments: Historic hotel located on Pennsylvania Ave at 14th St, NW, two blocks from the White House.	22,859	1904	335	\$414.00	\$474.00
<b>Hotel Monaco Washington DC</b> 700 F Street, NW Comments: Fully renovated for a 2002 opening, building listed on Nat. Register of Historic Places.	5,500	Ren. 2002	183	\$329.00	\$689.00
<b>W Washington, DC</b> 515 15th Street, NW Comments: Originally The Washington Hotel, located near McPherson Square, fully renovated for delivery in 2009.	10,000	1917	317	\$419.00	\$569.00
<b>JW Marriott Washington, DC</b> 1331 Pennsylvania Avenue, NW Comments: Located at Pennsylvania Avenue and 14th St, NW, more recent construction style.	37,000	1984	772	\$329.00	\$359.00
<b>Hay-Adams Hotel</b> 1 Lafayette Square, 16th & H Streets, NW Comments: Historic hotel located across Lafayette Square from the White House. Extensively renovated in 2002.	6,000	1928	154	\$525.00	\$525.00
<b>Sofitel Washington Lafayette Square</b> 806 15th Street, NW Comments: Late 19th Century building, extensively renovated. Close to McPherson Square and White House.	5,896	Ren. 2002	237	\$360.00	\$400.00
<b>St. Regis Washington, DC</b> 923 16th Street, NW Comments: High quality renovated hotel, historic building, located 16th & I Streets, NW.	11,268	1926	182	\$595.00	\$655.00
<b>Hotel Lombardy</b> 2019 Pennsylvania Avenue, NW Comments: Boutique hotel originally constructed in 1929, located several blocks northwest of the White House.	1,606	1929	140	\$299.00	\$329.00
<b>Mandarin Oriental Hotel</b> 1330 Maryland Avenue, SW Comments: New construction in 2004, extensive amenities, substantial meeting space.	21,483	2004	400	\$571.00	\$650.00
<b>Totals / Averages</b>	<b>121,612</b>		<b>2,720</b>	<b>\$299.00</b>	<b>\$689.00</b>
	<b>13,512</b>			<b>\$426.78</b>	<b>\$516.67</b>

1/ For standard rooms, last week of September 2011.

All of the hotels offer meeting space, ranging from as little as 1,606 square feet at Hotel Lombardy, to 37,000 square feet at the JW Marriott. In addition to the meeting space, most of these hotels have a wide range of amenities, including expansive good quality lobbies, concierge service, fitness centers, business centers for guest use, and many have swimming pools as well. Some have special features, such as the W Hotel which has a rooftop lounge offering a view of the White House. All are within walking distance of Metro stations. Most offer a range of suites in addition to standard hotel rooms.

Advertised rates for these hotels range from a low of \$329 per night, to as high as \$655 per night, with the most common rates being in the \$400 to \$500 per night range.



**LOCATION MAP – HOTEL COMPARABLES**

### Performance of the Competitive Set

The first eight hotels in the prior table have been included in an analysis of recent performance, using statistics provided by Smith Travel Research. The Mandarin Oriental hotel has been excluded, due to its recent construction date, and its location well south of the subject property. The following table summarizes the performance of this group of hotels during the six year period between 2006 and 2011 (YTD as of August):

<u>Time Period</u>	<u>Average Occupancy</u>	<u>Avg. Daily Room Rate</u>	<u>Growth Rate</u>	<u>RevPAR</u>	<u>Growth Rate</u>
2006	70.7%	\$250.22		\$176.95	
2007	77.0%	\$263.96	5.5%	\$203.24	14.9%
2008	74.6%	\$289.00	9.5%	\$215.61	6.1%
2009	75.1%	\$271.80	-6.0%	\$204.12	-5.3%
2010	76.5%	\$276.06	1.6%	\$211.26	3.5%
2011 (YTD thru Aug.)	77.6%	\$284.19	2.9%	\$220.57	4.4%
Average 2006-2010	74.9%	\$264.28	2.5%	\$197.88	4.5%

For this group of properties, the average occupancy level has been relatively steady, ranging from 70.7% to 77.6% during the six year period. Based on the statistics reported above from Destination DC for the entire District of Columbia, this is superior to the market in general, indicating that properties in locations such as the subject attract higher levels of demand. We also note that while occupancies dipped slightly during the 2008/2009 recession, the market has been improving in 2010 and 2011. The average daily room rate for this group of hotels peaked in 2008 at \$289.00 per occupied room night, then declined to \$271.80 in 2009, and appears to have been increasing since that time. The ADR through August 2011 is \$284.19. Overall, RevPAR (Revenue Per Available Room) peaked at \$215.61 in 2008, declining to \$204.12 in 2009, but has bounced back to \$220.57 through August 2011.

Analysis of results from January to August of each year from 2006 to 2011 indicate similar general patterns, with peaks occurring in 2008, followed by a decline in 2009, and gains since that time, in ADR, Occupancy, and RevPAR. The gain in RevPar from 2010 to 2011 is slightly more pronounced based strictly on performance between January and August. This reflects the typical seasonality pattern in Washington, DC, which the weaker months are typically January, February, August, November, and December. For the January to August period, three of the five weakest months are included. This indicates that the full year figures for 2011 may ultimately be slightly better than the indication provided for the January to August period. These statistics are summarized in the following table:

<b><u>Time Period</u></b>	<b><u>Average Occupancy</u></b>	<b><u>Avg. Daily Room Rate</u></b>	<b><u>Growth Rate</u></b>	<b><u>RevPAR</u></b>	<b><u>Growth Rate</u></b>
Jan. - Aug. 2006	69.5%	\$247.92		\$172.25	
Jan. - Aug. 2007	78.1%	\$255.78	3.2%	\$199.80	16.0%
Jan. - Aug. 2008	76.9%	\$281.15	9.9%	\$216.13	8.2%
Jan. - Aug. 2009	77.7%	\$271.54	-3.4%	\$211.01	-2.4%
Jan. - Aug. 2010	77.7%	\$267.32	-1.6%	\$207.61	-1.6%
Jan. - Aug. 2011	77.6%	\$284.19	6.3%	\$220.57	6.2%
Average 2006-2011	76.3%	\$262.54	2.8%	\$200.32	5.1%

## **Conclusion**

The District of Columbia enjoys strong demand for hotels, due to its status as a center of US and world politics and government, business activities surrounding government, tourism related to US history and museums (especially the Smithsonian), and individual demand deriving a large and prosperous population. In addition, the area attracts a high level of conference and meeting activity, relating to the political, government, and business activities mentioned above.

The subject property occupies a location close to the White House, the houses of Congress, and many of the major departments of the federal government. It is also in the East End of downtown Washington, which supports a very large volume of office space, including some of the most expensive Class A space in the downtown area. Analysis of similarly located historic hotel buildings suggests that high quality hotel rooms (4 or 5 star quality) should be able to perform at a level which exceeds the average for Washington, DC.

Based on the information summarized above, we estimate that a fully renovated hotel, which would have finishes, fixtures, and soft goods at a quality level of at least a four star hotel, with amenities comparable to the hotels profiled above, could generate an average occupancy rate of approximately 75% over the long term, with an average daily rate of approximately \$325 per occupied room night. This would result in an estimated RevPAR for a prospective hotel at the subject site, of \$243.75.

**APARTMENT MARKET ANALYSIS**

Washington, DC supports a large and growing apartment market, offering a wide range of product types, including small older walk-up buildings, mid-rise structures, and recently built luxury high-rise buildings. Much of the newly constructed product is located in downtown Washington, or in emerging neighborhoods such as that which supports the subject.

**Downtown Submarket and Washington, DC**

The following table summarizes the submarket data produced by REISReports for Washington, DC and the Downtown / Logan Circle submarket (which includes the subject's location), as of 2<sup>nd</sup> Quarter 2011.

**REISREPORTS APARTMENT SUBMARKET ANALYSIS  
DOWNTOWN / LOGAN CIRCLE SUBMARKET, AND WASHINGTON, DC  
2ND QUARTER 2011**

	Periodic Growth Rate - Average Asking Rent *					
	<u>2nd Q 2011</u>	<u>2nd Qtr</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>
<b>Average Asking Rent</b>						
Downtown / Logan Circle Submarket	\$1,703	0.1%	0.3%	1.8%	3.5%	5.6%
Washington, DC	\$1,455	0.5%	0.4%	2.3%	2.3%	4.1%
<b>Average Vacancy Rate</b>	<u>2nd Q 2011</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	
Downtown / Logan Circle Submarket	3.8%	3.9%	4.9%	5.6%	6.4%	
Washington, DC	5.3%	5.3%	5.8%	5.1%	4.7%	
<b>New Construction</b>	<u>2nd Q 2011</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	
Downtown / Logan Circle Submarket	0	0	0	145	172	
Washington, DC	333	172	648	1,273	1,103	
<b>Absorption</b>	<u>2nd Q 2011</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	
Downtown / Logan Circle Submarket	20	30	101	187	221	
Washington, DC	332	270	1,062	731	589	
<b>Absorption - Construction</b>	<u>2nd Q 2011</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	
Downtown / Logan Circle Submarket	20	30	101	42	49	
Washington, DC	(1)	98	414	(542)	(514)	

\* Quarterly rate for current quarter & year to date, annualized rate for prior years.

As indicated in the table, the current average rent in the submarket is \$1,703 per month, which is substantially higher than the reported average for all of Washington, DC. Rents in the submarket increased slightly in the 2<sup>nd</sup> quarter of 2011, and have increased since the beginning of the year, at a quarterly rate of 0.3%. While rents increased only 1.8% during the past year, the rate of increase during the past five years has been substantial, averaging 5.6%

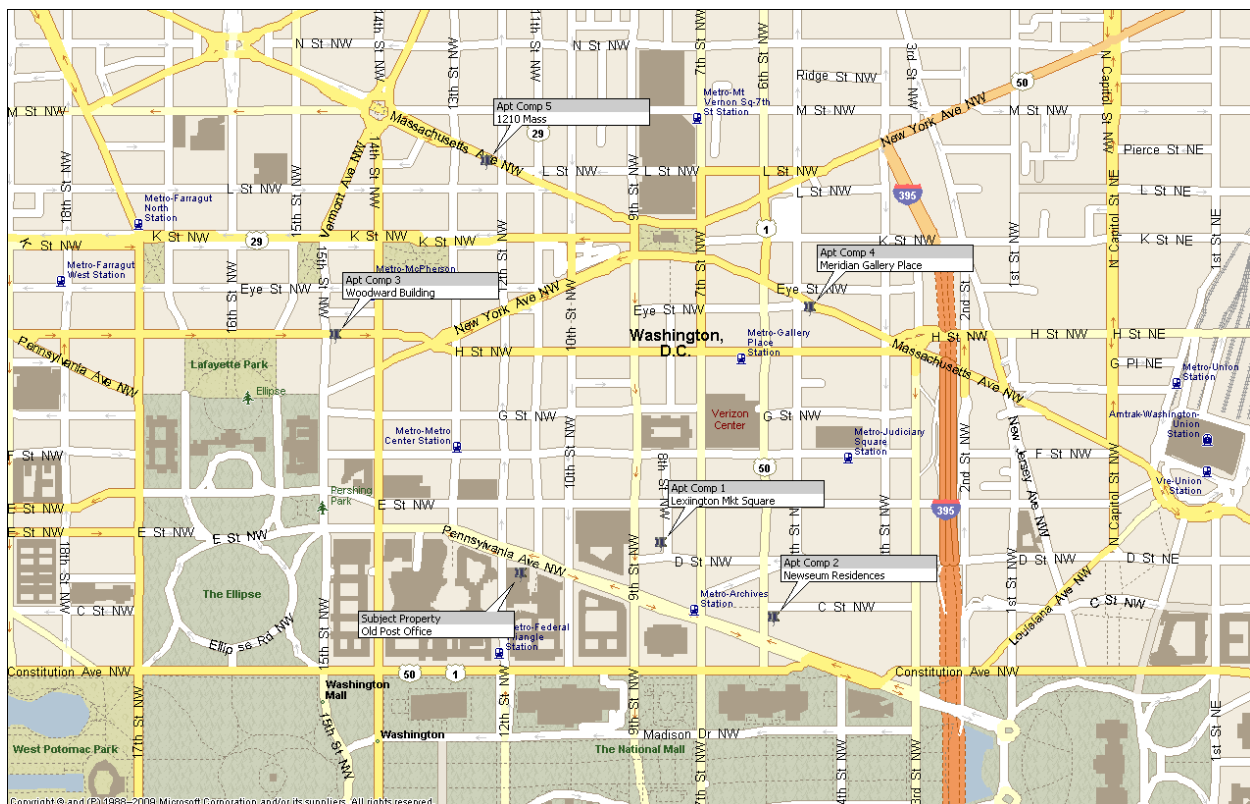


per year. This is notably higher than the average annual increase for all of Washington, DC during the same period (4.1%), which reflects an improving level of demand. However, it is also reflective of the amount of new construction in the submarket, relative to the existing apartment inventory.

No new apartment units have been delivered in the submarket during 2011, or during the past year. During the prior five years, an average of 221 units per year has been delivered in this submarket. Throughout Washington DC, however, 332 units have been delivered in the 2<sup>nd</sup> quarter, and an average of 172 units per quarter have been delivered during 2011. Absorption has been relatively strong, in both the submarket and throughout the District, resulting in positive net absorption, and declining vacancy rates during the past year.

### Primary Competition

The following table summarizes information on five properties located in the East End area of downtown Washington, DC. All are elevator projects which have been recently constructed or renovated, and offer a wide range of amenities.



**APARTMENT COMPARABLE MAP**

Property/Location	Yr.Blt	No. Units	Unit Type	Size	Rent/Month	Rent/SF
<b>1 Lexington at Market Square</b>		135 Studio		525	\$1,840	\$3.50
400 8th St, NW		One BR / One BA		639	\$2,370	\$3.71
Washington, DC		One BR / One BA / Den		971	\$2,665	\$2.74
		Two BR / Two BA		897	\$2,955	\$3.29
<b>Comments:</b> Located at 8th & D Sts, NW, 10 sty bldg, close to Pennsylvania Ave. Amenities include fitness center, courtyard, concierge, guest suite. Garage parking \$220 - \$310/ month.						
<b>2 Newseum Residences</b>	2007	135 Studio		490	\$1,960	\$4.00
565 Pennsylvania Ave, NW		One BR / One BA		835	\$2,740	\$3.28
		Two BR / Two BA		1,143	\$4,695	\$4.11
<b>Comments:</b> Located on 6th Street just off of Pennsylvania Ave NW, 12 story Class A building. Amenities include rooftop deck, concierge, fitness center, business center, lounge with coffee bar. Garage parking reported to be \$300 per month.						
<b>3 Woodward Building</b>		189 Studio		484	\$2,044	\$4.22
733 15th St, NW		One BR / One BA		710	\$2,668	\$3.76
Washington, DC		One BR / One BA / Study		851	\$2,900	\$3.41
		Two BR / Two BA		1,025	\$3,833	\$3.74
		Two BR / Two BA		1,266	\$3,580	\$2.83
<b>Comments:</b> A renovation of an older 11 sty office building, located at 15th and H Sts, NW. Amenities include a resident lounge, fitness center, business center, sun decks, and a concierge. Garage parking \$260/ month.						
<b>4 Meridian Gallery Place</b>	2004	462 Studio / Sunroom		548	\$2,008	\$3.66
450 Massachusetts Ave, NW		One BR / One BA / Sunroom		772	\$2,380	\$3.08
Washington, DC		One BR / One BA / Den / Sunroom		1,094	\$3,138	\$2.87
		Two BR / Two BA		1,265	\$3,543	\$2.80
<b>Comments:</b> A new, high quality 14 story building located on Massachusetts Ave, NW, between 4th and 5th Streets. Amenities include rooftop pool and deck, clubroom, fitness center, guest suite, and concierge. Garage parking, \$195 to \$275/ mo.						
<b>5 1210 Mass</b>	2004	144 Studio		523	\$2,005	\$3.83
1210 Massachusetts Ave, NW		One BR / One BA		694	\$2,295	\$3.31
Washington, DC		One BR / One BA / Den		838	\$2,655	\$3.17
		Two BR / Two BA		1,150	\$3,245	\$2.82
<b>Comments:</b> A good quality project located on the south side of Massachusetts Ave between 12th and 13th Streets in the East End of downtown DC. 12 story project with no on site retail. Garage parking \$195 - \$250/ mo.						
<b>Totals</b>		<b>1,065</b>				

The complexes typically offer studio, one, and two bedroom apartments; three bedroom units are rare in this market since the typical occupant is a single, roommates, or a couple. Unit sizes are generally small, with studios averaging around 450 to 600 square feet, one bedrooms ranging from about 600 to 850 square feet, and one bedroom/den or two bedrooms range from about 850 to 1,250 square feet. These projects typically offer a wide range of community-wide amenities, including a club house or lounge, fitness center, business center, and some offer additional amenities such as a rooftop deck, swimming pool, game room, or movie lounge.

Rents: Rents are typically quite high, and range from about \$2.80 to \$4.20 per square foot per month, reflecting the Washington, DC location and the smaller than normal unit sizes. Monthly rental rates generally range between \$1,850 to \$2,050 per month for studios, \$2,300 to \$2,750 for one-bedroom units, \$2,650 to \$3,150 for one bedroom/den units, and \$2,950 to \$4,700 for two-bedroom units. In most cases with new or recent construction, the units are submetered for electricity and gas charges, and tenants pay for water/sewer charges as well. Landlords typically pay for only trash removal, though this cost may be collected from tenants as well. Concessions are not unusual in this market, and range from reductions in amenity and parking fees, to rental concessions of up to one or two months free rent.

## **Conclusion**

While there are not a substantial number of apartment buildings located directly in downtown Washington, DC, those that do exist generally experience very strong demand, reflecting the large number of downtown employees who would prefer to live close to the workplace. Most projects of this type involve new construction, and offer a mix of studio, one, and two bedroom units. Rents are relatively high, with most one bedrooms exceeding \$2,000 per month, and most two bedrooms exceeding \$3,000 per month. On a per s.f. basis, rents range from \$2.74 to \$4.11 per square foot.

As indicated by the ReisReports survey, vacancies are typically quite low in the area, and absorption normally keeps pace with or exceeds new construction.

If new apartment units were to be included in a renovation of the subject property, we would expect that they would maintain a high level of occupancy, with vacancy and collection losses estimated at approximately 5.0%. We would further estimate that an appropriate unit mix of studios, one bedrooms, and two bedroom units would result in an average unit size of approximately 800 square feet. The comparables indicate that average rents of \$3.50 per square foot would be reasonable, which would indicate an average apartment rent of \$2,800 per month, plus utilities (electric, gas, water/sewer, and trash removal).

**PROPERTY DESCRIPTION**

**SITE**

**Legal Description:**

Square 0323, Lot 800 (Old Post Office)  
Part of 0324, Lot 805 (Annex)

**Location:**

The subject site is located on the south side of Pennsylvania Avenue, NW, at 11<sup>th</sup> Street, NW. C Street (now closed), is located at the rear of the lots. The property actually consists of one full Square (323) as well as portions of Square 324 (Parcels 1, 2 and 3), which are primarily occupied by the IRS building. The official address of the building is:

1100 Pennsylvania Avenue, NW  
Washington, DC 20004

A survey prepared by WCG Engineers is presented in the Addenda.

**Size and Shape:**

The combined site totals 2.7 acres or 117,799 square feet and is irregular (somewhat L-shaped) in shape. Based on our examination of the survey provided by the client, 61,436 square feet underlies the Old Post Office Building, 35,313 is under the Annex, and the remainder is located on the plaza and loading area between the buildings on what had been 11<sup>th</sup> Street (now closed). There is no excess land.

**Topography:**

The site is at street grade and level

**Frontage & Accessibility:**

The site has 300 feet of frontage on the south side of Pennsylvania Avenue, and 307 feet on the east side of 12<sup>th</sup> Street, NW. C Street was abandoned and lies to the rear of Lot 323. The property is ½ block from the Federal Triangle metro station. It is accessible from fronting streets.

<b>Visibility:</b>	Visibility of the Old Post Office site is very good due to the site's road frontage. The Annex has poor visibility.
<b>Surrounding Development:</b>	Surrounding development consists of numerous 6 to 7-story office buildings in the Federal Triangle district. The National Mall is one block to the south. Privately developed office buildings are located to the north.
<b>Utilities:</b>	The site is served by public water and sewer by the District, as well as electricity, natural gas and cable service from private suppliers.
<b>Soils and Drainage:</b>	The scope of this analysis does not include specific tests for adequacy of soils and drainage. We have been informed that the water table underlying the buildings is higher than normal for Washington, DC. As a result, it may be difficult and more expensive to build more than one level below grade. The existing Old Post Office building is built upon steel pilings that are kept submerged to avoid corrosion in air.
<b>Flood Plain:</b>	FEMA Flood Map 110001-0030B (11/15/85) indicates that the subject is in flood zone C, an area outside any known flood hazard area.
<b>Easements &amp; Encroachments:</b>	As a survey of title is beyond the scope of this report, a precise rendering of recorded easements and encroachments was not available. Based on a physical inspection of the property, and on our review of a tax map, there appears to be an easement for access to the Annex via an open passage through the IRS building to the west. The Department of the Interior has access to the clock tower in perpetuity.

**Hazardous Materials:**

Our physical inspection did not reveal indications of any hazardous materials which could adversely impact the subject property. However, we are not experts in this field, and we make no representations in this regard. In order to completely discount the possibility of contamination, we recommend that a full environmental study be conducted. Our estimate of value assumes that the building is subject to no substantial impacts due to hazardous materials.

**Nuisance Factors:**

No significant nuisances were noted during our inspection of the subject property.

**Comments:**

The Old Post Office site is rectangular in shape and has a corner location that is very desirable for commercial, high-rise development. The portion of the site ascribed to the Annex has an unusual shape and poor street visibility. Any development on this part of the property would be physically constrained by the existing IRS building that surrounds the property to the south and east.

The property has no excess land per se. There are no off site improvements that benefit the property. No public or private improvements are anticipated that would affect value.

## **IMPROVEMENTS**

The main Old Post Office building is one of the oldest office buildings in the District, and was built in 1899 and most recently renovated in 1980. Its most noticeable feature is the 315 foot tall Clock Tower which is operated and maintained by the National Park Service. The structure contains the Congressional Bells, a gift to the United States from Great Britain, and has an observation deck that affords excellent views of the city. The building is nine-stories tall and features a large interior atrium with skylight extending over the entire interior. The ground floor, mezzanine and lower level feature retail space with a food court. Most of the office space is occupied by the National Endowment for the Arts and National Endowment for the Humanities.

The Annex is a two-story plus basement, glass-roofed pavilion that was built in the courtyard between the IRS and Old Post Office in 1992. It is connected to the lower retail level of the Old Post Office, and also has exterior access to the plaza on the north side. There is a connection to the IRS Building near 10<sup>th</sup> Street as well. Portions of the interior were never completed, including an area that was planned for a single screen theater on the lower level. Due to financial problems faced by the third party developer, the annex was closed in 1995 and has been vacant for 16 years.



**AERIAL PHOTO – OLD POST OFFICE AND ANNEX**

The large majority of the office space in the building would be considered Class B space, with average quality finishes in offices lining the corridors. The office layout generally includes a wide hallway surrounding the 10-story atrium with open, bullpen office (cubicle) areas and limited private offices around the perimeter. Retail space is located around the first floor,

mezzanine, and in the lower level food court. Two former restaurant spaces on the first floor are gutted and vacant.

A summary of building areas is shown in the table below:

	Old Post Office		
	<u>Main Bldg</u>	<u>Annex</u>	<u>Combined</u>
GBA	414,691	100,735	515,426
Net Rentable Area			
Office 2-8 \Note 1	210,803		210,803
NEA Ground Floor	5,492		
Retail	39,688	50,277	89,965
Food Court	8,916		8,916
<u>Total NRA</u>	<u>264,899</u>	<u>50,277</u>	<u>315,176</u>
Land Area (SF)	61,436	56,363	117,799

Note 1: Includes all usable, corridor, and core space.

Note that we have excluded the 9<sup>th</sup> floor in the Old Post Office from the usable area. This level has no windows, poor access (only one small elevator and the stairs), and no cooling. Most of the space is used for mechanical (heating and cooling) equipment. In a redevelopment scenario, this floor could be changed and made usable, but it is not included for the values assuming continued GSA occupancy. It is included in the GBA.

The net rentable area for the Annex is only for the demised retail spaces, and excludes the circulation area.

A description of the general building systems of the Old Post Office is contained below, and sample floor plan is shown in the Addenda.

**Year Built:** 1899 (Old Post Office)

**Building Area:** 414,691 SF GBA; 264,899 sf NRA

**Estimated Market NRA:** We have excluded the 9<sup>th</sup> floor area from usable and net rentable square footage. The rooms on this level have no windows and are primarily used to house mechanical systems. In addition, only one small elevator provides access to the ninth floor (from the eighth floor). This space is not marketable, in our opinion.



The client for this assignment requires that we use a specific methodology to estimate the rentable area of the building; i.e., that we begin with the estimated usable area, and adjust upward by a market oriented core factor, to indicate a market oriented net rentable area. For office buildings in downtown Washington, DC core factors, i.e. interior common areas which may be used by tenants but are not within demised suites, typically range from 10% to 15%, with a commonly accepted average of 12% to 13%.

The subject has unusually wide corridors for circulation on Floors 2-8. These corridors, which are included in the NRA listed above, total 63,841 square feet, or 30.2% of the rentable area. This is significantly higher than what is typically found in the market.

During our inspection of the property, we noted that the occupying agencies used portions of the corridors to display artwork and historic exhibits related to their missions. Thus, about 30% to 40% of the corridors could be called part of the tenants' usable area. Based on this analysis, we estimate market oriented NRA for the office space using a 25% core factor as follows:

**Market NRA (Office)**

Total Rentable Office	216,295
Less Corridors	(63,841)
Less Core:	<u>(7,137)</u>
Tenant Usable:	145,317
Core Factor 25%	<u>36,329</u>
Net Rentable Area	181,646

The retail space on the lower, mezzanine, and first floor levels totals 39,688 square feet. This includes an 11,019 square foot section that has been vacant for 15+ years. It is located on its own level, separated from the rest of the Mezzanine, and only has access via a staircase. It is located at the back of the building. In our opinion, this should not be included as leasable space, and would remain vacant. Market oriented retail NRA is shown below:

**Market NRA (Retail)**

Food Court	8,916
PA Ave Restaurant	10,884
Interior Retail	28,804
Less: Unleasable	<u>(11,019)</u>
Total	37,585

**STRUCTURAL SYSTEMS****Foundation, Frame, & Floors:**

Submerged pilings form the support for the building. It has an internal steel frame with five foot thick self-supporting, granite block exterior walls. Floors are wood subflooring with marble tile in the common areas and wood floors (carpeted and exposed) in the office space.

The property manager reports that the steel beams that support the steps and entrance on Pennsylvania Avenue need replacement. The estimated cost is \$445,000.

**Roof Structure & Covering:**

Combination slate shingles and flat roof with built-up structure. There is a glass skylight over the large central atrium. The manager reports there are many leaks in the skylight which needs major repairs of \$1,035,000. Continued maintenance and repair of the slate roof is required.

**Exterior Walls:**

Exterior walls are self-supporting granite with ornamental arches, turrets, and parapets. Management reports that the exterior walls need immediate repairs at a cost of \$2,520,821. Fenestration includes single-pane, truly divided windows in wooden frames. Most have peeling paint on the exterior and rotted frames. These need to be replaced with other windows that will conform to the historic requirements for the building. The cost estimate is \$2,766,952.

**Ceiling Height:**

The first floor has 25 foot ceilings, and ceilings are 13-16 feet on floors 2-9.

**Elevators:**

The building includes a total of eight passenger elevators (2,500 lb capacity). Two banks (five cabs) connect the

main floor with office levels 1-8. These were renovated and upgraded in the last two years and are in good condition. One older elevator connects the eighth and ninth floors, and there is one vacant elevator shaft linking these floors. Most of the ninth floor space is used for mechanical systems and storage and does not have exterior windows, has no HVAC, and is thus undesirable for office use in its current configuration. In addition to the elevators servicing the office floors, the NPS operates a glass enclosed elevator that runs from the basement (food court) to the ninth floor, providing access to the Clock Tower elevator and Observation Deck.

**Stairwells:**

The building has five interior staircases serving all floors of the building. A grand open staircase links the food court with the mezzanine and first floor retail.

**MECHANICAL SYSTEMS**

**Heating and Cooling:**

The HVAC system is dependent on steam and chilled water from the adjacent IRS building. Retail tenants in the OPO have a separate chiller for air conditioning that was replaced within the last two years. If redeveloped, a new HVAC system would be required for the building. Under Value Scenario #3, assuming continued federal occupancy, we have assumed the building will continue to receive steam and cold water from the IRS building.

**Electrical and Lighting:**

There is abundant power to the building, but management reports the switchgear is in need of near-term replacement at a cost of \$1,650,000. Lighting is primarily provided by recessed florescent fixtures in the ceiling, with incandescent fixtures added in certain areas. There is an emergency generator with underground diesel fuel tank for emergency lighting, but it has insufficient capacity to operate the elevators.

**Restrooms:**

The building includes 2 restrooms per floor on Floors 2-8, most of which are not ADA accessible. The food court has two common lavatories for customer use. Some

tenant spaces, such as the executive offices, have private bathrooms for the occupants.

**Fire Protection:**

The building is fully sprinklered, and is served by a fire alarm system with pull stations and smoke detectors.

**Security:**

Building security is provided by video cameras located around the perimeter of the building, and at key points in the interior. There are guard stations at each entry point.

**Interior Finishes:**

There are three lobbies on the north, east, and west sides of the building which feature marble floors and columns and chandeliers. Office finishes are basically painted drywall or plaster walls, acoustical tile or plaster ceilings, and carpet or wood floors. Some offices and conference rooms have more elaborate wood paneling on the walls, but most spaces are basic.

**Parking/Loading:**

There is a loading dock with room for four vehicles on the south side of the building. Unmarked parking for seven cars is possible at the rear. The lack of on-site parking is not a significant detractor for the property, as there is an abundance of garages nearby, and Metrorail access is within ½ block of the property.

**AGE AND CONDITION**

**Actual/Effective Age:**

Effective age is defined as the age of the structure given the physical condition and utility of the improvements. Considering that the subject is over 110 years old and has significant deferred maintenance, the effective age of the improvements is estimated at 40 years.

**Economic Life:**

Based on the design and construction quality, its total economic life is estimated at 60 years. The estimated remaining economic life of the building, therefore, is 20 years.

**Annex Improvements:**

The Annex was built in 1992 and has 100,735 square feet of GBA on three levels. Net rentable area is reported to be 50,277 square feet, excluding mechanical areas and circulation corridors. About 25% of the basement area was never finished and had been planned for use as a theater. A portion of the basement was reportedly flooded in the past, but there is no current evidence of water infiltration or flood damage.

The building has a steel frame and block construction with a glass atrium roof. The roof has numerous leaks and needs constant repair, per the property manager. Retail spaces are located on the south and north sides of the building, with a central glass-roofed atrium. A walkway from the lower level food court of the Old Post Office connects with the ground floor of the Annex. Exterior entrances lead to the 11<sup>th</sup> Street plaza next to the Old Post Office, and the east side of the building at the IRS entry. The Annex has an interior escalator, two staircases, and one hydraulic elevator serving the three levels. Common floors are marble or tile. Most of the retail spaces have glass storefronts but a shell interior with concrete slab floors. According to the property manager, there are no functioning HVAC units so service would have to be reestablished within the building. There is one set of public restrooms. Due to the long-term vacancy of the property, and shell condition of most retail spaces, effective age of the annex is estimated to be 30 years, with a remaining economic life of 20 years. Actual age is 19 years.

In estimating the potential market NRA for the building assuming back office use, we have started with the gross building area and deducted the loading dock area. Most office buildings have an efficiency ratio of 90%. Due to the atrium and staircases in the subject, we have employed a lower efficiency ratio of 75%. On the lower and main level, it should be possible to extend the front walls of the rentable suites further into the corridors, or even finish the whole lower level for one tenant's use.

The calculation is shown below:

**Market NRA (Annex)**

GBA	100,735
Less Loading Dock	<u>(2,500)</u>
Net Interior	98,235
75% Efficiency	<u>(24,559)</u>
Net Rentable	73,676

**Summary of Valuation Considerations**

Clearly, the two buildings suffer from some significant deferred maintenance that has resulted from the long-term vacancy of the Annex, and delays in performing needed repairs to the Old Post Office pending a transfer of the property to a private developer. Under Value Scenarios 3 & 4, which assume continued federal occupancy, we have made deductions for the tenant improvements that would be required to lease vacant space in both buildings. In addition, we have made deductions for urgent capital repairs as follows:

<u>Item</u>	<u>Old Post Office</u>	<u>Annex</u>
Install HVAC to Annex\1		\$875,000
Replace Switchgear	\$1,650,000	
Skylight Repairs	\$1,035,000	\$250,000
Exterior Windows	\$2,766,952	
Exterior Wall Repairs	\$2,520,821	
Miscellaneous\2	\$0	\$503,675
Steel Beams at PA Ave	<u>\$445,000</u>	<u>0</u>
Total	\$8,417,773	\$1,628,675
With 20% Profit	\$10,101,328	\$1,954,410
<b><u>Rounded</u></b>	<b><u>\$10,100,000</u></b>	<b><u>\$1,950,000</u></b>

1\ Estimate for equipment for 350 ton capacity

@ \$2,000/ton from MVS, Section 53, PP 4 & 5

Other costs from ABP.

2\ Demise from IRS, misc electrical and elevator @ \$5/sf

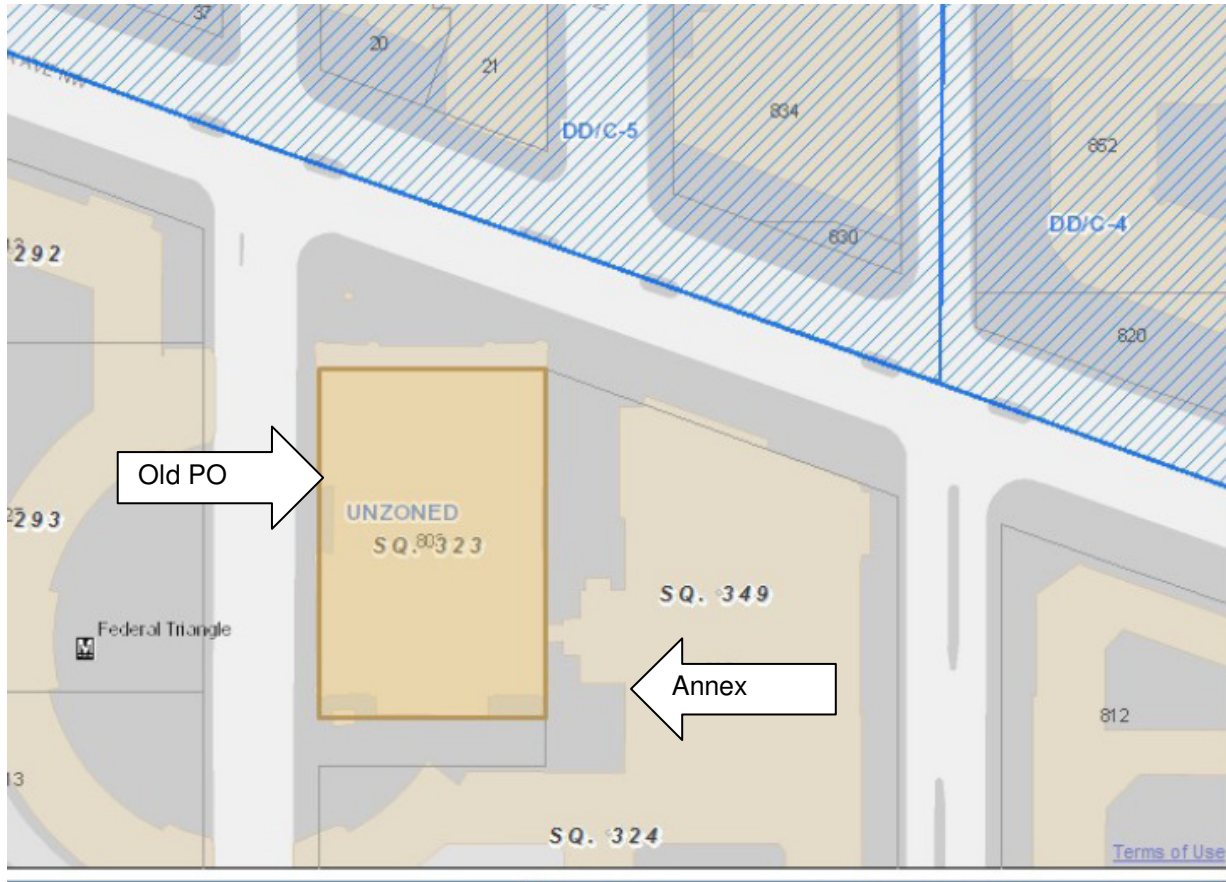
The two vacant restaurant spaces in the Old Post Office will require an estimated \$20 per square foot to provide a vanilla shell finish, plus additional TI to secure a restaurant tenant. The remaining office and retail space in the Old Post Office is leasable, as-is.

The Annex has been vacant for over 15 years. In addition to the HVAC equipment replacement, it will need additional improvements to be made usable. Based on the condition of the property, we estimate a first generation TI of \$35 per rentable square foot for this building, assuming continued federal occupancy. First generation tenant improvements for new Class A office buildings are typically \$70 to \$90 per square foot in the CBD and East End. These amounts are to build the space out from shell. The highest amount is for high quality space with a “law firm finish”. The subject is not a Class A building. However, it will require some reconfiguration, new demising walls, floor covering, and some ceilings. An allowance of \$35/sf, plus the cost of new HVAC equipment, skylight repairs, and miscellaneous system repairs, should suffice. The resulting finish will be appropriate for “vanilla” below grade office use.

In addition to the physical obsolescence noted above, both buildings have functional obsolescence as well. The wide corridors in the Old Post Office diminish the usable area of each floor. The ninth floor of this building is not rentable due to inadequate elevator access and a lack of windows. The large atrium area also increases energy costs for the building. Finally, some areas on the mezzanine level are not suitable for retail use, as improved. The Annex is somewhat of a “white elephant” for downtown Washington, DC. Its poor visibility make it unsuitable for retail use, and it was never fully leased. Its design is only suitable to “back office” office use, if occupied by the federal government. As shown in the HBU and sales comparison approach in Part 2 of this appraisal, the improvements would most likely be demolished to make way for new development.

**ZONING**

As shown on the following zoning map provided by the District of Columbia Zoning Office, the subject site is unzoned. Property on the north side of Pennsylvania Avenue is zoned DD/C-5. To the east of 10<sup>th</sup> Street, the zoning DD/C-4.



This C-5 PAD district is designed to accommodate important sub-centers supplementary to the Central Business District. The C-5 district is designed to support high density development, including office, retail, housing, and mixed use development. Uses allowed within this zone include various office, retail and service establishments, as well as various residential and mixed use developments, to a high density. The development standards established for the C-5 zone include the following:

Maximum Building Height:	130 feet; can be increased to 160 feet if height in excess of 130 feet is set back an additional 50 feet from Pennsylvania Avenue
Maximum FAR:	10.0; can be increased to 12.0 if certain public amenities are provided (bonus density)



Maximum Lot Occupancy:	100%
Rear Yards:	12 feet
Side Yards:	None required, but 6 feet if one is provided
Parking:	In C-5 district, none required for office or retail use. For hotels, one space per 8 rooms; for residential, one space per 4 units. Parking may be reduced 25% for properties within 800 feet of a Metrorail station, like the subject. According to Section 2120.3 of the Zoning Code, historic structures are exempt from the requirement to provide additional parking as the result of a change in use unless the gross floor area of the historic resource is increased by 50% or more.

Furthermore, the Downtown Development District Overlay extends to the north side of Pennsylvania Avenue. The overlays include the Arts District and Pennsylvania Avenue Development District (PADD). The Arts District strives to promote places for the creative arts, with a focus on the E and 7<sup>th</sup> Street Corridors. It would have minimal impact on the subject. The PADD was instituted to regulate the height of buildings along Pennsylvania Avenue between 10<sup>th</sup> and 15<sup>th</sup> Streets, preserve the role the avenue plays as a link between the White House and U.S. Capitol, and encourage a mix of retail, entertainment, office, and other uses. Encouraged within the PADD are open arcades, enclosed pedestrian space, through square connections, theaters, residences, and closed courts. Up to 2.0 bonus density FAR may be granted as an incentive to create these public uses in the C-5 zone. New development on the property, if vacant, would likely be subject to these regulations. Note: The property is not designated to either send or receive Transferable Development Rights (TDRs).

#### Implications for the Subject

The property is currently not zoned, but adjacent to the DD/C-5 zone on the north. That would be the most likely zoning for the property, if converted to private ownership. We have considered the following densities achieved on the north side of Pennsylvania Avenue, between 10<sup>th</sup> and 13<sup>th</sup> Streets (C-5 zoning).

<u>Address</u>	<u>NRA</u>	<u>Stories</u>	<u>FAR</u>
1001 Pennsylvania Ave	756,412	14	8.81
1111 Pennsylvania Ave	331,074	14	11.1
1201 Pennsylvania Ave	425,000	11	8.34
1101 Pennsylvania Ave	219,627	13	10.29
1275 Pennsylvania Ave	216,900	13	11.58

The largest sites appear to have achieved lower FARs due to the need to prevent “massing” enormous floor plates which are not as marketable. The average achieved density is 10.02. The Old Post Office Pavilion parcel is 61,436 square feet, which is larger than most of the building sites and most similar to 1001 Pennsylvania Avenue. Due to its rectangular shape, we estimate it could physically support an FAR of 9.0 in an 11 to 13 story building. This would equate to a GBA of 552,924 square feet, rounded to **550,000 square feet**.

However, the Annex has an unusual shape and is essentially the “donut hole” in the IRS Building courtyard. In order to have exterior windows, some setback from the existing IRS and Old Post Office Pavilion buildings would be required. Based on an examination of the achieved Annex footprint of +/-36,500 square feet, which abuts the IRS Building, it would appear possible to build a +/-8-story building with a +/-15,500 to 23,850 square foot footprint that incorporates Parcels 1, 2, and 3 but has a 30 to 50 foot setback from adjacent buildings to allow for fenestration on four sides. **(See detailed discussion in the highest and best use for Part 2 of the valuation. Scaled footprint is in the Addenda).**

For purposes of the valuation of the Annex land as-if vacant in Scenario 1, we have estimated a potential maximum FAR using the 20,000 square foot building footprint and an eight-story building. This would equate to a potential FAR of **160,000 square feet**. As detailed in the highest and best use analysis in section 2 of the valuation, this is a reasonably probable estimate of likely density for the site.

As built, both the existing Old Post Office building and the Annex are a legal, non-conforming use in the C-5 zone, due to a lack of a rear yard setback and the height of the tower on the Old Post Office. The improvements could be replaced in the event of a casualty loss.

**REAL ESTATE ASSESSMENT AND TAXES**

Real estate tax assessments for commercial property in Washington, DC are issued by the District on January 1 of each year, and theoretically represent the full cash value of each property. The current assessment for the Old Post Office is summarized below. There is no separate assessment for the Annex, as it is physically part of the much larger IRS headquarters and included in that assessment.

Land	\$79,663,250
Building	<u>\$75,956,940</u>
Total	\$155,620,190

The tax rate is \$1.65 per \$100 of assessed value on the first \$3,000,000, and \$1.85 per \$100 for the remainder. Buildings which are owned by the United States Government are not subject to real property taxation in Washington. Under private ownership, the property would be subject to real property taxes. We considered the following tax comparables:

<u>Address</u>	<u>GLA</u>	<u>Assmnt</u>	<u>Asst/SF</u>	<u>Class</u>	<u>Comment</u>
441 4th St, NW	563,137	\$208,532,470	\$370.31	C	
555 4th St, NW	345,776	\$124,621,960	\$360.41	C	
529 14th St, NW	490,960	\$115,624,620	\$235.51	B	June 2011 Sale \$167,500,000
700 14th St, NW	224,873	\$72,003,550	\$320.20	B	1917/1989 Ren
1101 PA Ave, NW	219,621	\$177,417,220	\$807.83	A	Sold \$177,951,012 in 2010
<b>Old Post Office</b>	<b>250,716</b>	<b>\$155,620,190</b>	<b>\$620.70</b>	<b>B</b>	

We would note that the assessment for 1101 Pennsylvania Avenue increased 78% in the year following the sale of the property. We would expect the assessment for 529 14<sup>th</sup> Street to increase substantially next year as well, as the District tends to reassess property after a sale. The subject assessment appears to be out of line with the comparables, considering the relatively low effective usable area and low achievable rents. Based on the comparable data, we estimate a market assessment of \$300 psf for the Old Post Office for use in the stabilized income approach, assuming continued federal occupancy. For the Annex, a lower value of \$165/sf is reasonable based on the stabilized income approach value as if leased to the government. Stabilized real estate taxes would be as follows:

	<u>Old Post Office</u>	<u>Annex</u>
NRA	219,231	73,676
Assmnt/SF	\$300.00	\$165.00
Assessed Value	<u>\$65,800,000</u>	<u>\$12,200,000</u>
Taxes	\$1,211,300	\$219,700

## **THE APPROACHES TO VALUE**

The following sections of this report analyze the general and specific data that has been gathered using the three traditional approaches to value -- the Income Approach, the Sales Comparison Approach and the Cost Approach. The value indications derived from these approaches are then reconciled into a final indication of value for the subject -- consistent with the purposes of this appraisal.

Due to the number of value scenarios requested by the client, we have divided the report into two parts. Part I includes the valuation of the land as if vacant (Scenarios 1 & 2), and the market value assuming continued occupancy by the federal government "as-is" (Scenarios 3 & 4). Since these values do not reflect the long-term highest and best use of the property, they are treated differently from the market value of the entire property "As-Is" at its highest and best use to a typical market investor (Scenario 5). This final value estimate and in depth highest and best use study is contained in Part 2 of the valuation section of the report.

**The Income Approach** to value is based on the principle of anticipation and the premise that the value of a property is the present worth of future benefits. This approach involves the analysis of potential income to the subject, taking into account existing leases (if applicable) and market rents. The costs of ownership, which must be incurred to generate that income, are also analyzed and an appropriate capitalization technique is then formulated to derive an indication of value for the subject at the valuation date. The approach is applicable to estimating market value under Scenarios 3 & 4 (continued federal government occupancy).

**The Sales Comparison Approach** is based primarily on the principle of substitution and is premised on the idea that an informed and prudent rational purchaser would pay no more than the cost to him of acquiring a similar, competitive property with the same utility. This approach assumes there is an active market for properties similar to the subject and that the prices paid for similar competitive properties, which represent bone-fide arm's-length transactions, are indicative of the most probable sale price for the subject, as of the valuation date. In this approach, salient characteristics of the subject property are identified and compared with recent sales of properties similar to it. Differences between the comparable sales and the subject are adjusted to the subject, based on market evidence, and the adjusted sales prices are correlated into an indication of value, as of the valuation date. This approach is applicable to all five value scenarios.

**The Cost Approach** is founded on two basic principles, substitution and contribution. The principle of substitution uses the premise that an informed purchaser will pay no more for a property than the cost of producing a substitute property with the same utility. Contribution holds that the present worth of the improvements is a measure of their contribution to total property value -- in addition to the estimated value of the site. Under this approach, the value of the site is added to an estimate of the replacement cost of the improvements, less a deduction for physical deterioration, functional obsolescence, and external obsolescence. Due to the age of the existing improvements and extensive amounts of physical and functional obsolescence, the approach is not applicable to any of the value scenarios. Costs to redevelop the property are considered as part of the highest and best use analysis.

**Part I**  
**Value Scenarios 1-4**

### **HIGHEST AND BEST USE<sup>3</sup>**

An analysis of Highest and Best Use results in a judgment of the most profitable long term use for a given property. HBU is a key concept in the valuation, marketing, or use of real estate, because it identifies that use which generally results in a property's highest value in the market.

Appraisers judge HBU through an series of analyses, each designed to identify and eliminate unprofitable uses. The analysis begins with a very basic test: Legal Permissibility. This analysis identifies those legal uses to which a property may be put, and recognizes that uses which are not legally permissible cannot be profitable over the long term. Legally permissible uses are defined primarily by zoning laws, but are also limited by historic preservation, easements, contracts, and other binding agreements. The subsequent analyses consider only those uses which are legally permissible.

Once the legally permissible uses are defined, the appraiser considers the physical limitations of the site and its improvements. Under the analysis of Physical Possibility, uses which may be legally permissible but which cannot be physically accommodated by the real estate are eliminated from consideration as the Highest and Best Use. Physical limitations may be related to the site, e.g. accessibility, flood plain, and topography; or to the improvements, e.g. building size and design. Typically, the legal and physical tests cull the range of potential uses down to a small number.

The remaining uses are then tested on the basis of Financial Feasibility. To be considered a financially feasible use, the use must be profitable to the extent that net income produced, after operating expenses are deducted from gross income, is sufficient to return an acceptable yield to invested capital. Invested capital may include the purchase price for the property under consideration, plus any additional investments required.

If the feasibility analyses result in more than one legal, physically possible, and financially feasible use, the HBU conclusion is based on consideration of Maximal Profitability. Simply put, among the financially feasible uses, that use which is most profitable is judged to be the Highest and Best Use, because it should result in the highest attainable value in the market.

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<sup>3</sup> *The Appraisal of Real Estate*, The Appraisal Institute, Tenth Edition, 1992.

### Considerations for the Subject

Due to the specific client requirements for Value Scenarios 3 & 4, the highest and best use analysis is restricted to consider continued occupancy of the buildings “as-is”. This is not the same highest and best use of the property absent the legal restriction of continued occupancy by the federal government. For the sites as if vacant, we have also been asked to analyze the land under the assumption that the sites could be developed to a density similar to those seen on nearby properties with the same zoning (Value Scenarios 1 & 2).

### **HIGHEST AND BEST USE OF THE SITE AS THOUGH VACANT**

#### **Legally Permissible**

The site is not zoned, but would most likely be zoned DD/C-5 based on the zoning located on the opposite side of Pennsylvania Avenue. Allowable uses include office, retail, residential, and hotel. For purposes of valuing the land as if vacant, we have assumed the sites could be developed to a density similar to that achieved by privately owned properties on the north side of Pennsylvania Avenue. These range from 8.3 to 11.6, and 9.0 to 10.0 appears likely (legally) for the subject sites.

#### **Physically Possible**

The Old Post Office site has good frontage on three roads and any of the allowable uses would be possible. The Annex parcel is mid-block with poor road frontage. While less desirable than the Old Post Office site, any of the allowable uses would still be physically possible. Surrounding uses are government office buildings on the south side of Pennsylvania Avenue. On the north side, all buildings also feature Class A office with ground floor retail space. That would be the most likely physically probable use on the subject sites as well. As described in the Zoning Section of the report, the Old Post Office parcel could achieve a density of 550,000 square feet, representing an FAR of 9.0. Due to physical constraints on the Annex portion of the property, and need to maintain setbacks on all four sides of the building, an eight-story, 160,000 square foot building appears to be the most probable density.



### **Financially Feasible**

As discussed in the Market Section of the report, office vacancy rates in the subject's market area are low, and office rents are among the highest in the region in the East End. Clearly, office use would be feasible, including retail use on the first floor. Both hotel and residential use are considered feasible as well, considering that there are active and healthy markets for both types of property in the CBD.

### **Maximally Profitable**

Of the legal, physically possible, and financially feasible uses, it is our opinion that office use with first floor retail space is the maximally profitable use, and therefore highest and best use. These uses not only enjoy strong demand in the local market, they are the most common uses in the DD/C-5 zone to the north of the property, and are most compatible with surrounding development. While there is sporadic hotel and residential development within downtown Washington, DC, office is by far the preferred land use in the area. As will be shown in the detailed HBU in Part 2 of the appraisal, these alternate uses also generate a lower return to the land than do office and retail. Based on these patterns observed throughout downtown, office and retail development would be expected to generate the highest profitability and return to invested capital over the long term. This is the highest and best use of each site, if vacant.

### **HIGHEST AND BEST USE AS IMPROVED**

Analysis of the HBU of a property as-is, or as currently improved, establishes the use factors to be considered in the valuation. In most cases, the current use of a property is also its highest and best use. For Value Scenarios 3 and 4, the client has specifically requested that we provide a value estimate under the special assumption that the federal government maintains their occupancy at market rent and occupancy levels. Thus, we have excluded any analysis of redevelopment of the properties with an alternate use, or demolition.

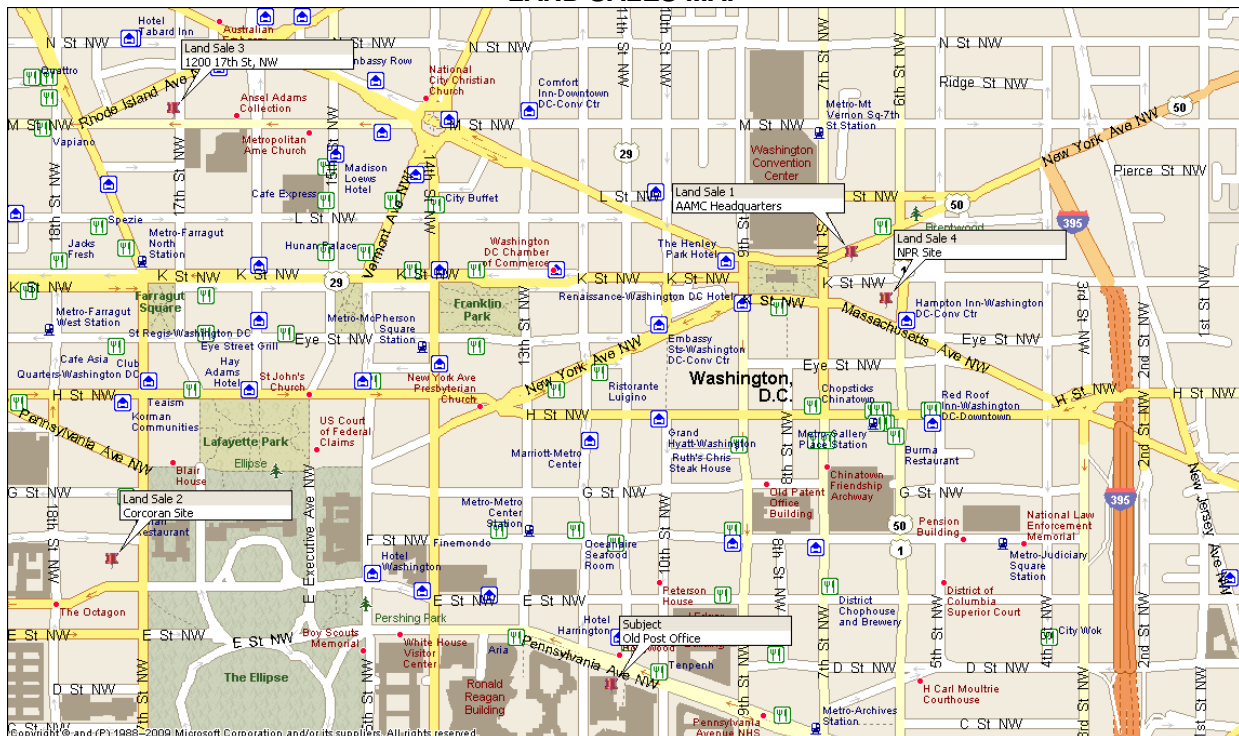
The current use of the Old Post Office (office with retail) is legally allowed and physically possible. However, the building requires a large amount of maintenance and capital repairs which results in negative NOI each year. Energy use is high due to the age of the systems. The office space is configured in such a way that it is not suitable for modern users. This results in a lower achievable rent for the office space than for more modern buildings. As a result, continuing to operate the building as-improved is not maximally profitable. A detailed HBU study is presented in Part 2 of the appraisal; for Value Scenario 3, we have assumed continued occupancy as-is.

The Annex has been vacant for over 15 years. It was designed for 100% retail occupancy, but this proved unfeasible. The building has poor visibility, and would likely not accommodate any retail space if operated on its own. Connected to the retail level of the Old Post Office, it may be possible to reopen a portion for retail use. The building is otherwise physically suited to “back-office” operations, storage, or possibly a small museum or conference space for the government tenants in the Pavilion. Achievable rents would be lower than for space with superior visibility. The HBU of the property under the specific hypothetical assumption of GSA occupancy would be for “back-office” or perhaps museum and exhibit space tied to tenancy in the Old Post Office. Either use would command rents similar to those achieved in lower levels of downtown office buildings.

**LAND VALUATION**

We have been requested to estimate the market value of the land underlying the Old Post Office, and the Annex, assuming they were vacant and could be developed to the highest density under the potential zoning. As discussed in the Zoning section, the most likely zoning would be DD/C-5, which is the zoning on the north side of Pennsylvania Avenue. As shown by the achieved FAR on the north side of Pennsylvania Avenue, it appears that an FAR of 9.0 could be achieved on the Old Post Office site, which is the basis for the land value. As discussed in greater detail in Part 2, 160,000 square feet would be legally allowable and the most likely physically possible development size for the Annex site.

To estimate the land value for the subject property, recent sales of similar sites from within the local market were investigated and compared to the subject site based on those factors which affect value. In this market prices may be expressed on a per acre basis, a per square foot basis, or a per FAR foot basis; For this appraisal, we have compared sales on the basis of price per FAR foot. The recent land sales selected for this exercise are detailed on the following pages.

**LAND SALES MAP**

**Land Sale No. 1****Property Identification**

<b>Record ID</b>	1921
<b>Property Type</b>	Commercial Land, Office
<b>Property Name</b>	AAMC Headquarters
<b>Address</b>	601-625 K Street, 616-640 NY Ave, NW, Washington, Washington D.C. 20001
<b>Tax ID</b>	Square 451, Multiple Lots

**Sale Data**

<b>Grantor</b>	Jemal's 50 Wysocki, Kim & Hodges LLCs
<b>Grantee</b>	Association of American Medical Colleges
<b>Sale Date</b>	August 30, 2011
<b>Deed Book/Page</b>	2011-090111
<b>Financing</b>	Bond Financing-Third Party
<b>Sale History</b>	Assemblage-2000-2007
<b>Verification</b>	Deed, Grantee

<b>Sale Price</b>	\$63,480,000
<b>Demolition</b>	\$250,000
<b>Adjusted Price</b>	\$63,730,000

**Land Data**

<b>Zoning</b>	DD/C-2-C
<b>Topography</b>	Level, Improved
<b>Utilities</b>	Public

**Land Size Information**

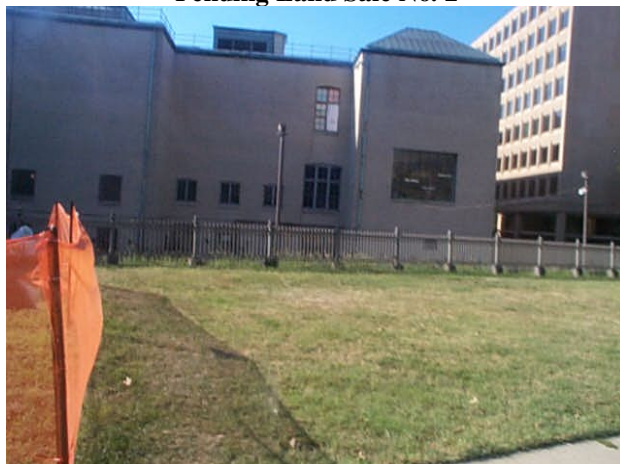
<b>Gross Land Size</b>	1.014 Acres or 44,170 SF
<b>Actual/Planned Building SF</b>	285,000

**Indicators**

<b>Sale Price/Gross Acre</b>	\$62,869,822
<b>Sale Price/Gross SF</b>	\$1,442.83
<b>Sale Price/Planned Bldg. SF</b>	\$223.61

**Land Sale No. 1 Continued****Remarks**

This is an assemblage of 22 tax parcels that make up the entire square bounded by 6th Street on the east, New York Avenue to the north, 7th Street to the west, and K Street on the south. The location is just east of Mount Vernon Square and the Washington Convention Center. The main portion of the property was sold by Douglas Development (\$57,830,000), which assembled the parcels from 2000 to 2008 under three separate entities. Other sellers include Stancil & Holder (\$1,550,000), Basiliko & Swagart (\$3,500,000) and 628 New York Ave LLC (\$2,000,000). The buyer plans to develop a 285,000 square foot headquarters office building. The lots are improved with parking lots and old, one to two story commercial buildings of little to no value, and which must be cleared for redevelopment of the property.

**Pending Land Sale No. 2****Property Identification**

<b>Record ID</b>	1920
<b>Property Type</b>	Commercial Land, Office
<b>Property Name</b>	Corcoran Gallery Parcel
<b>Address</b>	SWC 17th and New York Ave, NW, Washington, Washington D.C. 20006
<b>Tax ID</b>	Square 0171, Part of Lot 34

**Sale Data**

<b>Grantor</b>	Corcoran Gallery of Art
<b>Grantee</b>	Carr Properties
<b>Closing Date</b>	October 14, 2011
<b>Property Rights</b>	Fee Simple
<b>Verification</b>	Eric Berkman, broker; Previously Appraised by MWH

<b>Contract Price</b>	\$24,800,000
<b>Cash Equivalent</b>	\$24,800,000

**Land Data**

<b>Zoning</b>	SP-2
<b>Topography</b>	Sloping, finished
<b>Utilities</b>	Public

**Land Size Information**

<b>Gross Land Size</b>	0.372 Acres or 16,184 SF
<b>Actual/Planned Building SF</b>	124,000

**Indicators**

<b>Sale Price/Gross Acre</b>	\$66,750,371
<b>Sale Price/Gross SF</b>	\$1,532.38
<b>Sale Price/Planned Bldg. SF</b>	\$200.00

**Pending Land Sale No. 2 Continued**

**Remarks**

The seller in this transaction owns a museum and college of art on the site, and the land to be conveyed consists of the current parking lot that wraps around the rear of the gallery. They initially began to explore a ground lease or sale of the FAR in 2007, and had a LOI with The American Enterprise Institute, but never reached agreement on the price prior to the financial crisis in 2008. In late 2010, Carr Properties agreed to a long-term ground lease based on an FAR value of \$200/ft. The Corcoran then decided to take the lease to market, and Carr Properties entered into an agreement to buy the site outright.

The parties have created a separate tax parcel that will be recorded contemporaneously with the closing of the sale in October 2011. The grantee plans a speculative office building with three levels of below grade parking on the site. The building will have views of the Executive Office Building and is located less than a block from the West Wing of the White House.

**Pending Land Sale No. 3****Property Identification**

<b>Record ID</b>	1836
<b>Property Type</b>	Office
<b>Address</b>	1200 17th Street, NW, Washington, Washington D.C. 20036
<b>Tax ID</b>	Square 160, Lot 809

**Sale Data**

<b>Grantor</b>	National Restaurant Association
<b>Grantee</b>	First Potomac/ Akridge
<b>Closing Date</b>	October 01, 2011
<b>Deed Book/Page</b>	N/A
<b>Property Rights</b>	Fee Simple
<b>Marketing Time</b>	56 months
<b>Financing</b>	Third Party
<b>Verification</b>	Broker

<b>Contract Price</b>	\$39,600,000
<b>Upward Adjustment</b>	\$470,000 Demolition
<b>Adjusted Price</b>	\$40,070,000

**Land Data**

<b>Zoning</b>	DC/C-4
<b>Topography</b>	Level
<b>Utilities</b>	Public
<b>Shape</b>	Irregular

**Land Size Information**

<b>Gross Land Size</b>	0.391 Acres or 17,013 SF
<b>Actual/Planned Building SF</b>	170,000

**Indicators**

<b>Sale Price/Gross Acre</b>	\$102,595,027 Adjusted
<b>Sale Price/Gross SF</b>	\$2,355.26 Adjusted
<b>Sale Price/Planned Bldg. SF</b>	\$235.71 Adjusted



**Pending Land Sale No. 3 Continued**

**Remarks**

This is the pending sale of a 1964 vintage, 94,000 square foot office building that is to be demolished and redeveloped with up to 170,000 square feet of office space. We have factored in a demolition cost of \$5.00 per square foot. The site is located in the CBD at the NWC of 17th and M Streets, NW.

**Land Sale No. 4****Property Identification**

<b>Record ID</b>	1351
<b>Property Type</b>	Commercial Land, Office
<b>Address</b>	635 Massachusetts Ave, NW, Washington, Washington D.C.
<b>Tax ID</b>	0484W-0021

**Sale Data**

<b>Grantor</b>	National Public Radio
<b>Grantee</b>	Boston Properties
<b>Sale Date</b>	September 26, 2008
<b>Deed Book/Page</b>	2008-101241
<b>Verification</b>	Broker for sale
<b>Sale Price</b>	\$119,475,600 See Comments
<b>Cash Equivalent</b>	\$119,476,000
<b>Upward Adjustment</b>	\$1,000,000 Demolition
<b>Adjusted Price</b>	\$120,475,600

**Land Data**

<b>Zoning</b>	DD/C-3-C
<b>Topography</b>	Level, Finished

**Land Size Information**

<b>Gross Land Size</b>	1.035 Acres or 45,084 SF
<b>Actual/Planned Building SF</b>	450,840

**Indicators**

<b>Sale Price/Gross Acre</b>	\$116,403,095 Adjusted
<b>Sale Price/Gross SF</b>	\$2,672.25 Adjusted
<b>Sale Price/Planned Bldg. SF</b>	\$267.22 Adjusted

**Land Sale No. 4 Continued**

**Remarks**

The property is currently improved with a 1968 vintage, 152,000 square foot office building that is owner occupied. It was selectively marketed to local developers. As part of the condition of sale, the selected purchaser will develop a replacement headquarters for the seller on a site they recently bought on North Capitol Street, and the seller will leaseback their existing building for 2-3 years. Though the buyer can expect a GC profit for the construction of a replacement building, the return on this land purchase will be low, at only +/-5%. The broker believes these factors offset each other. Other market participants feel the buyer paid a premium, as it was noted that the deal closed just after the financial crisis hit, and the buyer probably would have walked away if not for the leaseback and new building provisions. The site occupies an entire block east of Mount Vernon Square, on the north side of Massachusetts Avenue between 6th and 7th Streets, NW.

**LAND SALES COMPARISON ANALYSIS  
OLD POST OFFICE SITE-IF VACANT  
SEPTEMBER 2011**

	<b><u>Comp 1</u></b>	<b><u>Comp 2</u></b>	<b><u>Comp 3</u></b>	<b><u>Comp 4</u></b>
<b>Location</b>	K, NY, 7th Street East End Washington, DC	17th St/NY Ave CBD Washington, DC	1200 17th St CBD Washington, DC	635 Mass. Ave, NW East End Washington, DC
<b>Sale Date</b>	August 2011	October 2011	October 2011	Sept 2008
<b>Land Area (SF)</b>	44,170	16,184	17,013	45,084
<b>SF-FAR</b>	285,000	124,000	170,000	450,840
<b>Indicated FAR Density</b>	6.45	7.66	9.99	10.00
<b>Zoning</b>	DD/C-2-C	SP-2	C-4	DD/C-3-C
<b>Offsite Costs</b>	None	None	None	None
<b>Property Rights Conveyed</b>	Fee Simple	Fee Simple	Fee Simple	Fee Simple
<b>Financing</b>	Cash to seller	Cash to seller	Cash to seller	Cash to seller
<b>Consideration</b>	\$63,480,000	\$24,800,000	\$39,600,000	\$119,475,600
<b>Additional Costs</b>	<u>\$250,000</u>	<u>\$0</u>	<u>\$470,000</u>	<u>\$1,000,000</u>
<b>Total Consideration</b>	\$63,730,000	\$24,800,000	\$40,070,000	\$120,475,600
<b>Price Per SF-FAR</b>	\$223.61	\$200.00	\$235.71	\$267.22
<b>Transaction Adjustments</b>				
Property Rights Conveyed	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$267.22
Financing	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$267.22
Conditions of Sale	0.0%	0.0%	0.0%	-10.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$240.50
<b>Market Conditions</b>	0.0%	0.0%	0.0%	-15.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$204.43
<b>Comparative Characteristics Adjustments</b>				
Location/Cornering	5.0%	10.0%	5.0%	5.0%
Physical Characteristics				
Topography	0.0%	0.0%	0.0%	0.0%
Shape	0.0%	0.0%	0.0%	0.0%
Site/Project Size	-10.0%	-10.0%	-10.0%	-5.0%
Development Costs	0.0%	0.0%	0.0%	0.0%
Zoning/Use	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Net Comparative Adjustment	-5.0%	0.0%	-5.0%	0.0%
<b>Adjusted Price/FAR foot</b>	\$212.43	\$200.00	\$223.92	\$204.43
	<b><u>Lowest</u></b>	<b><u>Highest</u></b>		
<b>Range After Adjustments:</b>	\$200.00	\$223.92		
<b>Adjusted Average</b>	\$210.20			
<b>Adjusted Median</b>	\$208.43			
<b>Indicated Subject Value</b>	<b>\$210.00</b>	<b>Per SF-FAR</b>		
<b>Subject Projected Density</b>	550,000	<b>SF/FAR</b>		
<b>Indicated Value - As If Vacant</b>	\$115,500,000			
<b>Rounded</b>	<b>\$115,000,000</b>			

## **Adjustment of Comparable Sales**

We will first adjust for the Old Post Office site, which is a rectangular, corner parcel of 61,436 square feet that could provide potential development of 550,000 square feet at a 9.0 FAR. Following a conclusion of land value for this site, we will make adjustments for size, mid-block location, and configuration of the Annex parcel.

Property Rights Conveyed: The comparables must first be adjusted to reflect differences in the property rights conveyed between buyer and seller. Most transfers of real estate convey fee simple, leased fee, or leasehold estates. To the extent that there are differences between the estate being appraised and that transferred in a comparable, an adjustment may be required. Adjustments in this category also recognize the impact on price of transfers of less than 100% ownership of the property. We are appraising the fee simple interest in the subject site, and all of the comparables involved fee simple interest. No adjustments are required.

Financing: Purchases of real estate may be based on financing provided by the seller, or on existing financing assumed by the buyer. Where such seller or assumable loans are at terms which are substantially below or above market lending terms, the impact may be reflected in a higher or lower sale price. All of the comparables were purchased with cash or third party financing, requiring no adjustments.

Conditions of Sale: Unusual conditions affecting the transaction may result in a price which is higher or lower than that expected under a normal, arms length transfer. Common examples include a seller under pressure to raise capital or unusual relationships between the buyer and the seller. It should be noted that many sales of land in the District involve unusual conditions and complex arrangements. After discussing Sale 4 with brokers familiar with the transaction, and comparing the price paid to other sales around the same time, we believe a slight premium was paid for the FAR due to the motivations of the buyer to build the new headquarters for the seller, and the ability to receive an interim income in the sale-leaseback transaction. A downward adjustment of 10% was made. No other unusual conditions were identified.

Changes in Market Conditions: Over time, changing market conditions affect the pricing of real estate. Land values escalated sharply through mid 2008, and declined following the financial crisis in the 4<sup>th</sup> Q 2008 through 2009. As market normality returned in 2010, and capitalization rates for Class A office buildings compressed, demand for land began to pick up again in late 2010-2011. Sales 1-3 are reflective of current market conditions. Sale 4 was adjusted downward since it was purchased near the market peak.

Location: Differences in neighborhood desirability, as well as site specific characteristics such as access to transportation networks or proximity to complementary uses may have a

significant impact on site value. In downtown locations, distances of only a few blocks may have a major effect on price. The subject sites are able to offer a premium Pennsylvania Avenue address, four blocks from the White House. The Old Post Office parcel has a corner location with frontage on three streets, which can provide good fenestration for any new development. Sales 1 and 4 have slightly inferior locations near Mount Vernon Square, which has only recently enjoyed the benefits of redevelopment and is not as desirable as Pennsylvania Avenue near the White House. However, these sites have superior frontage on four sides which offers better fenestration. Overall, a slight upward adjustment is made. Sale 2 is one block from the White House in the CBD which is very desirable. Upward adjustment is made for the mid-block location of the proposed building. Sale 3 has a corner location in the CBD which is judged slightly inferior to the subject.

#### Physical Characteristics

**Topography:** The subject and each of the sale comparables have roughly level topography and no unusual development costs would be expected due to topography. No adjustment is made.

**Shape:** The Old Post Office site has a rectangular shape, and is suitable for office development or mixed office/commercial development. The comparables have similarly usable shapes, and required no adjustments for this factor.

**Site Size:** For most sites in downtown Washington, DC, size rarely indicates a major difference in price per FAR foot, except for some very small sites which are considered key components of larger assemblages and generate higher prices due to the improved position of the seller. Indeed, it is difficult to assemble a large site in one transaction. However, the holding costs during lease up are higher for a large building compared to significantly smaller buildings. In regard to size, the amount of FAR square footage attributable to the comparables ranges from 124,000 to 450,840. For the subject site, the appraised FAR density estimate is 550,000 which is substantially larger than Sales 1-3, and indicated the need for a modest downward adjustment. Sale 4 is slightly smaller and received a small adjustment.

**Development Costs:** Neither the subject nor the sales are expected to have unusual development costs. Sales 1, 3 and 4 were already adjusted for the added cost of demolition. No adjustment is made.

**Zoning/Use:** The comparable sales were all purchased for office development, and have the ability to add first floor retail space if desired. The use of the subject site is similar, and no adjustments were necessary.

## **Conclusion of Site Value**

### Old Post Office Site

After adjusting the prices for the comparable sales as described above, the comparables indicate a range of \$200.00 to \$223.92 per FAR foot, with an average of \$210.20 per FAR. Most weight is placed on Sales 1-3, which are very recent, though Sale 4 is closest in terms of size.

Based on these indications, it is our opinion that the value of the subject site is \$210.00 per FAR foot. Applied to the potential above grade building area at a 9.0 FAR of 550,000 square feet, the indicated value of the site, as if vacant, is **\$115,000,000** (rounded). Note that this is considered a hypothetical value as the existing structure can not legally be removed, and the density can thus not be achieved in reality.

### Annex Site Value

After discussing the property with the client, we have allocated the remaining land area of the combined property to the Annex. The most likely physically achievable density is 160,000 square feet, based on likely building height of eight stories, and a footprint that allows for 30+ foot wide clearance between the subject and adjacent buildings

We have applied the same adjustments as in the prior analysis, with the following changes:

Location: The site has adequate frontage on Pennsylvania Avenue to provide access, but any building would have to be built in what is essentially a courtyard framed by the six to seven-story IRS building and the nine-story Old Post Office. This provides much inferior fenestration and views. Also, above grade connection to either building is not possible.

We considered a February 2011 sale in the CBD as support for an adjustment. A mid-block, 18,250 sf, narrow and deep lot at 2109 M Street, NW sold to Renaissance Centro M Street LLC for \$9,200,000, or \$84.02/FAR based on a potential building area of 109,500 square feet. The site is surrounded by a hotel and an office building with no near term redevelopment potential. Under the CR zone, a maximum of 50% of the 6.0 FAR may be non-residential. Employing a commercial FAR value of \$235/sf (supported by Land Sale 3), and residential FAR value of \$75/FAR as supported by recent residential sales, a potential value of \$16,972,500 is indicated for a site with a good corner location. The actual sale price is a 46% discount.

We believe a lower discount would be appropriate for the subject. First, while the building will not have direct frontage on Pennsylvania Avenue, it still would have a commanding presence in the Federal Triangle, and the prestige of the Pennsylvania Avenue address. Second, we have incorporated a 30 foot setback from adjacent buildings; this is wider than typical in order to permit adequate light and windows on all four sides of the building. If one made similar assumptions for the 2109 M Street sale and used a lower achievable FAR, a lower discount would be indicated. We have therefore applied a discount of 30% to the subject. This negative adjustment (30%) is added to the positive adjustments previously employed in the Old Post Office site adjustment grid, resulting in net negative adjustments to 20% to 25%.

Size: The size adjustments were changed to reflect the lower amount of FAR achievable at the property. Holding costs during lease up are higher for a large building compared to significantly smaller buildings. In regard to size, the amount of FAR square footage attributable to the comparables ranges from 124,000 to 450,840. For the subject site, the appraised FAR density estimate is 160,000 which is similar to Sales 2 and 3. Sales 1 and 4 are larger, and need a modest upward adjustment.

After adjustments, the comparables indicate a range of \$160.00 to \$178.89 per FAR foot, with an average of \$172.36 and a median of \$175.27 per FAR. Most weight is placed on Sales 1-3, which are very recent.

Based on these indications, it is our opinion that the value of the subject site is \$175.00 per FAR foot. Applied to the potential above grade building area of 160,000 square feet, the indicated value of the site, as if vacant, is **\$28,000,000** (rounded). The existing improvements could be demolished, but a true as-is value of the site would require a deduction for the cost to demolish the existing improvements, and downward adjustment for the uncertainty regarding the actual permitted density that would be allowed under private ownership.



**LAND SALES COMPARISON ANALYSIS  
ANNEX SITE - IF VACANT  
SEPTEMBER 2011**

	<b><u>Comp 1</u></b>	<b><u>Comp 2</u></b>	<b><u>Comp 3</u></b>	<b><u>Comp 4</u></b>
<b>Location</b>	K, NY, 7th Street East End Washington, DC	17th St/NY Ave CBD Washington, DC	1200 17th St CBD Washington, DC	635 Mass. Ave, NW East End Washington, DC
<b>Sale Date</b>	August 2011	October 2011	October 2011	Sept 2008
<b>Land Area (SF)</b>	44,170	16,184	17,013	45,084
<b>SF-FAR</b>	285,000	124,000	170,000	450,840
<b>Indicated FAR Density</b>	6.45	7.66	9.99	10.00
<b>Zoning</b>	DD/C-2-C	SP-2	C-4	DD/C-3-C
<b>Offsite Costs</b>	None	None	None	None
<b>Property Rights Conveyed</b>	Fee Simple	Fee Simple	Fee Simple	Fee Simple
<b>Financing</b>	Cash to seller	Cash to seller	Cash to seller	Cash to seller
<b>Consideration</b>	\$63,480,000	\$24,800,000	\$39,600,000	\$119,475,600
<b>Additional Costs</b>	<u>\$250,000</u>	<u>\$0</u>	<u>\$470,000</u>	<u>\$1,000,000</u>
<b>Total Consideration</b>	\$63,730,000	\$24,800,000	\$40,070,000	\$120,475,600
<b>Price Per SF-FAR</b>	\$223.61	\$200.00	\$235.71	\$267.22
<b>Transaction Adjustments</b>				
Property Rights Conveyed	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$267.22
Financing	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$267.22
Conditions of Sale	0.0%	0.0%	0.0%	-10.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$240.50
<b>Market Conditions</b>	0.0%	0.0%	0.0%	-15.0%
Adjusted Price	\$223.61	\$200.00	\$235.71	\$204.43
<b>Comparative Characteristics Adjustments</b>				
Location/Cornering	-25.0%	-20.0%	-25.0%	-25.0%
Physical Characteristics				
Topography	0.0%	0.0%	0.0%	0.0%
Shape	0.0%	0.0%	0.0%	0.0%
Site/Project Size	5.0%	0.0%	0.0%	10.0%
Development Costs	0.0%	0.0%	0.0%	0.0%
Zoning/Use	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Net Comparative Adjustment	-20.0%	-20.0%	-25.0%	-15.0%
<b>Adjusted Price/FAR foot</b>	\$178.89	\$160.00	\$176.78	\$173.76
	<b><u>Lowest</u></b>	<b><u>Highest</u></b>		
<b>Range After Adjustments:</b>	\$160.00	\$178.89		
<b>Adjusted Average</b>	\$172.36			
<b>Adjusted Median</b>	\$175.27			
<b>Indicated Subject Value</b>	<b>\$175.00</b>	<b>Per SF-FAR</b>		
<b>Subject Projected Density</b>	160,000	<b>SF/FAR</b>		
<b>Indicated Value - As If Vacant</b>	\$28,000,000			
<b>Rounded</b>	<b>\$28,000,000</b>			

## THE INCOME APPROACH

The Income Approach to value is defined as: "A set of procedures in which an appraiser derives a value indication for income-producing property by converting anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. The first method is direct capitalization, in which one year's projected income can be capitalized at an overall rate which reflects the quantity, quality, and durability of the income stream. Subsequent adjustments are may be made to take into consideration variations from normalized operations. The second method is discounted cash flow (DCF) analysis, wherein projected annual cash flows during a holding period, along with future proceeds from resale of the property, can be discounted at a specified yield rate."<sup>4</sup> In this appraisal, direct capitalization has been employed as the building is assumed to be leased at a stabilized level of occupancy and at current market rent levels. DCF is not applicable as there are no existing leases to model. The assumptions used in this approach, as well as the indicated market values, are discussed in the remainder of this section of the report and summarized below:

**PHYSICAL FACTORS (S.F.)**

Net Rentable Office Area	181,646
Retail NRA	37,585
Total Old Post Office	219,231
Annex NRA	73,676

**REVENUE FACTORS**

Market Rent Office (FS)	\$41.50
Market Rent PA Ave Restaurant (NNN)	\$35.00
Market Rent Food Court (NNN)	\$35.00
Market Rent Interior Retail (NNN)	\$30.00
Market Rent Annex (FS)	\$27.00
Stabilized Vacancy and Collection Allowance	6.00%

**OPERATING EXPENSES - Per SF**

	<u>Annex</u>	<u>Old PO</u>
Real Estate Taxes	\$2.98	\$5.53
Insurance	\$0.35	\$0.35
Repairs & Maintenance	\$2.25	\$4.50
Management	\$0.76	\$1.13
Janitorial/Services	\$3.00	\$3.25
Security	\$0.50	\$0.50
Utilities	\$3.25	\$6.00
Retail CAM/Utilities	\$0.00	\$0.87
Food Court Expenses	\$0.00	\$1.32
General & Administrative	\$1.00	\$1.00
Reserves	\$0.25	\$0.50
Total Operating Expenses	\$14.34	\$22.58

**NET OPERATING INCOME**

\$813,138	\$4,020,824
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**DIRECT CAPITALIZATION ANALYSIS**

Overall Cap Rate	6.25%	6.00%
Indicated Stabilized Value	\$13,010,000	\$67,010,000
Indicated As-Is Value	<b>\$8,500,000</b>	<b>\$56,000,000</b>
Value Per SF	\$115.37	\$255.44

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<sup>4</sup> The Dictionary of Real Estate Appraisal, Appraisal Institute, 3rd Edition, 1993.

**ESTIMATE OF MARKET RENT**

The first step in estimating the market value for the subject by the Income Approach is to establish the current market rent. The comparable leases used in estimating market rent for the subject are profiled in the following pages. A map showing the location of these properties in relation to the subject is presented below.

**COMPARABLE RENTALS MAP**

**RENT COMPARABLE 1**



**Location:** 1747 Pennsylvania Ave, NW  
Washington DC 20006

**Source:** Broker

**Building Description:** 12-story Class A- office, 170,000 s.f.  
**Year Built/Renovated:** 1970/2008 renovation  
**Construction Type:** Masonry and glass exterior  
**Parking:** Garage; Ratio of 1.0/1,000 SF  
**Leased Area:** 5.878 s.f.  
**Tenant:** Houghton, Mifflin, Harcourt  
**Commencement Date/Term:** May 2011 / 6 years  
**Rental Rate/Structure:** \$51.00 per s.f. / FS  
**Annual Adjustments:** 2.25% per year  
**Concessions:** None  
**Tenant Improvements:** \$40.00 per square foot

**Comments:** This building received a significant upgrade of the lobby and common areas in 2008, and is one block from the White House and two blocks south of the Farragut West Metro. It offers an on-site fitness center, ground floor retail space, 24/7 security on site, and a roof deck for tenants. The building is 76% occupied, and space is available at the asking rent of \$52.00 to \$55.00 per SF, full service.

**RENTAL COMPARABLE 2**



<b>Location:</b>	1400 K Street, NW Washington, DC 20005
<b>Source:</b>	Broker
<b>Building Description:</b>	12-story Class B office building, 189,861 s.f.
<b>Year Built/Renovated:</b>	1981, Renovated 2007
<b>Construction Type:</b>	Steel with glass exterior
<b>Parking:</b>	Garage; Ratio 1.61/1,000 SF
<b>Leased Area:</b>	14,820 s.f.
<b>Tenant:</b>	Institute of International Education
<b>Commencement Date/Term:</b>	August 2011 / 10 years
<b>Rental Rate/Structure:</b>	\$45.75 per s.f. / FS (Face rent)
<b>Annual Adjustments:</b>	2.5%: \$2.50 per s.f. bump in Year 6
<b>Concessions:</b>	2 months free rent (\$44.99/sf effective rent)
<b>Tenant Improvements:</b>	\$60.00 per s.f.

**Comments:** This class B building is located at the SWC of K and 14<sup>th</sup> Streets, across from Franklin Square Park. The McPherson Square metro station is one block away. The elevators and lobby were upgraded about three years ago. The office space is currently 100% leased. This deal is a renewal and expansion of an existing tenant.

**RENT COMPARABLE 3**



<b>Location:</b>	1220 L Street, NW Washington DC 20005
<b>Source:</b>	Broker
<b>Building Description:</b>	12-story Class B office, 278,772 s.f.
<b>Year Built/Renovated:</b>	1982/2007 renovation
<b>Construction Type:</b>	Concrete and glass exterior
<b>Parking:</b>	Garage; Ratio of 0.59/1,000 SF; \$180/Mo
<b>Leased Area:</b>	16,262 s.f.
<b>Tenant:</b>	Verizon Business Solutions (Renewal)
<b>Commencement Date/Term:</b>	March 2011 / 5 years
<b>Rental Rate/Structure:</b>	\$40.92 per s.f. / FS
<b>Annual Adjustments:</b>	2.5%
<b>Concessions:</b>	None
<b>Tenant Improvements:</b>	None

**Comments:** Located at the SEC of 13<sup>th</sup> and L Streets, NW, the building is two blocks to the McPherson Metro and has windows on four sides. The lobby and common spaces were renovated in 2007. Asking rent is \$39 to \$44 psf for the vacant space (84% leased).



**RENT COMPARABLE 4**



**Location:** 1100 G Street, NW  
Washington, DC 20005

**Source:** Broker

**Building Description:** 11-story Class B office building, 109,959 s.f.  
**Year Built/Renovated:** 1969/2010 renovation  
**Construction Type:** Concrete and glass exterior  
**Parking:** Garage with valet service  
**Leased Area:** 6,641 s.f.  
**Commencement Date/Term:** July 2011/ 5 years  
**Rental Rate/Structure:** \$43.00 per s.f. / FS  
**Annual Adjustments:** 2.50%  
**Concessions:** None  
**Tenant Improvements:** \$30.00 per s.f.

**Comments:** This class B building is located at 11<sup>th</sup> and G Streets, one block from Metro Center. In 2010, the owners renovated all the elevators, lobby, and common areas including restrooms. The tenant was not disclosed in this transaction. The building is 61% leased and asking rent is \$40 to \$44 per square foot.

**RENT COMPARABLE 5**



<b>Location:</b>	633 Pennsylvania Ave, NW Washington DC 20004
<b>Source:</b>	Broker
<b>Building Description:</b>	6-story Class B office, 33,059 s.f.
<b>Year Built/Renovated:</b>	1850/1984 renovation
<b>Construction Type:</b>	Concrete and stone exterior (Historic)
<b>Parking:</b>	None
<b>Leased Area:</b>	2,502 s.f.
<b>Tenant:</b>	Center for Mideast Peace
<b>Commencement Date/Term:</b>	March 2010 / 5 years
<b>Rental Rate/Structure:</b>	\$52.00 per s.f. / FS
<b>Annual Adjustments:</b>	2.5%
<b>Concessions:</b>	None
<b>Tenant Improvements:</b>	Paint and Carpet (+/- \$6/sf)

**Comments:** Located at the corner of 7<sup>th</sup> Street and Pennsylvania Avenue, this historic building is primarily owner-occupied. It features elaborate interior finishes including a grand staircase, marble floors and walls, and oak paneling. It is 100% leased and located less than a block from the Archives Metro. Each floor also has an elaborate reception area with marble floors and chandelier, and windows on all sides. This is a full floor lease-the most recent in the building.



**OFFICE MARKET RENT ANALYSIS  
OLD POST OFFICE PAVILLION-DC00029ZZ  
SEPTEMBER 2011**

	<b>Comp 1</b>	<b>Comp 2</b>	<b>Comp 3</b>	<b>Comp 4</b>	<b>Comp 5</b>
<b>Location</b>	1747 Penn Ave CBD	1400 K St, NW East End	1220 L St, NW East End	1100 G St, NW East End	633 Penn Ave, NW East End
<b>Total Building Size</b>	170,000	189,861	278,772	109,959	33,059
<b>Year Built/Renovated</b>	1970/2008	1981/2007	1982/2007	1969/2010	1850/1984
<b>Building Class</b>	A-	B	B	B	B
<b>Reported Core Factor</b>					
<b>Area Leased</b>	5,878	14,820	16,262	6,641	2,502
<b>Commencement Date</b>	May-11	Aug-11	Mar-11	Jul-11	Mar-10
<b>Term (Years)</b>	6	10	5	5	5
<b>Lease Terms</b>	FS	FS	FS	FS	FS
<b>Free Rent</b>	None	2 mos free	None	None	None
<b>Tenant Improvements (Per SF)</b>	\$40.00	\$60.00	\$0.00	\$30.00	\$5.00
<b>Effective Rent Per SF</b>	\$51.00	\$44.99	\$40.92	\$43.00	\$52.00
<b>Transaction Adjustments</b>					
Expense Terms	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Adjusted Price	\$51.00	\$44.99	\$40.92	\$43.00	\$52.00
Conditions of Lease	-1.3%	0.0%	0.0%	0.0%	1.9%
Adjusted Price	\$50.34	\$44.99	\$40.92	\$43.00	\$53.00
<b>Market Conditions Adjustments</b>	1.0%	0.0%	2.0%	0.0%	5.0%
Adjusted Price	\$50.84	\$44.99	\$41.74	\$43.00	\$55.65
<b>Comparative Characteristics Adjustments</b>					
Location/Visibility/Views	0.0%	5.0%	7.5%	5.0%	0.0%
Accessibility	0.0%	0.0%	0.0%	0.0%	0.0%
Physical Characteristics					
Age/Condition	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Quality	-5.0%	0.0%	0.0%	0.0%	-5.0%
Load Factor	0.0%	0.0%	0.0%	0.0%	0.0%
Functional Utility/Windows	-7.5%	-7.5%	-7.5%	-7.5%	-12.5%
Parking	0.0%	0.0%	0.0%	0.0%	0.0%
Size	0.0%	0.0%	0.0%	0.0%	0.0%
Net Comparative Adjustment	-17.5%	-7.5%	-5.0%	-7.5%	-22.5%
<b>Adjusted Rent/SF</b>	\$41.94	\$41.62	\$39.65	\$39.78	\$43.13
<b>Adjusted Range</b>	<u>Low</u> \$39.65	<u>High</u> \$43.13			
<b>Average</b>	\$41.22				
<b>Indicated Market Rent</b>	<b>\$41.50</b>	<b>Per S.F. FS</b>			

## **Comparable Rental Analysis**

We have compared each of the comparables profiled above to the subject property on the basis of those factors which, in our opinion, affect rent levels in the local market. Each comparable has then been adjusted to reflect differences between it and the subject property, arriving at an indication of market rent for the subject. These adjustments are detailed on the adjustment table which follows, and in the discussion below.

## **Transaction Adjustments**

Expense Terms: Market rent for the subject is first estimated based on full service lease terms. Leases which are based on differing terms may incorporate higher or lower lease rates to compensate. The comparables were based on full service terms, and no adjustments were required.

Conditions of Lease: If a landlord or tenant is motivated by pressures which result in a higher or lower rental rate than normal, adjustments are required. Examples include rent concessions or a prior relationship between the landlord and the tenant. Typical tenant improvement allowances in the market are \$4.00 to \$6.00 per square foot of lease term. Renewals can be \$0 to \$2.00 per square foot per year. In cases where either excessive TI or below market TI was given the tenant, we have adjusted the rental rates accordingly. The adjustment equates to the dollar amount of the excess or below-market TI allowance, divided by the lease term.

## **Market Conditions Adjustments**

Each comparable must be adjusted to reflect improvement or deterioration in market conditions between the date of lease and the date of the appraisal. Comparable 5 commenced in early 2010, and was adjusted upward for improvement in office market conditions since that time. This was discussed in the local office market section of the report. Rents 1 and 3 were also negotiated in early 2011, warranting a smaller upward adjustment. The remaining comparables reflect current year conditions, and required no adjustment.

## **Comparative Characteristics Adjustments**

Location: Lease rates are measurably affected by influences as neighborhood quality, the character of surrounding properties, access to transportation routes, and the like. The subject is located in the East End submarket of downtown Washington, which is considered to be the premier submarket in the District. The Pennsylvania Avenue address is also prestigious. Rent 1 is in the CBD but is on Pennsylvania Avenue one block from the White House. No adjustment is made. Rents 2-4 received upward adjustment for locations off Pennsylvania

Avenue. Rent 5 is on Pennsylvania Avenue in the East End and no adjustment is needed.

Accessibility: The subject is also located one block from a Metrorail station, and is easily accessible from nearby highways. The comparables also feature highly accessible locations and do not warrant adjustment.

Physical Characteristics: These adjustments reflect differences in site characteristics and an array of building factors, including age/condition, quality, amenities/excess common area, parking availability, and size.

**Age/Condition:** The subject currently suffers from some deferred maintenance; however, as part of this valuation, we assume the critical repairs will be made and the overall condition of the property will be good. The cost for these repairs is deducted in the approaches to value. Each of the comparables has received a more significant renovation to common areas and lobbies, warranting downward adjustment for each rental.

**Quality:** Comparable 1 is marketed as a Class A/A- property and is slightly superior to the subject, warranting downward adjustment. Rent 5 is an historic renovation, like the subject; however, the quality of the interior finishes is superior to the subject, and a downward adjustment is made.

**Load Factor:** We have analyzed the subject using a 25% load factor, which is below the actual load factor of 60%. This is because we have eliminated the ninth floor, which contains primarily windowless storage and mechanical space, and have included only a portion of the wide corridors in our calculation of market-based NRA. The tenants are using these hallways for exhibit space. Therefore, no additional adjustment is necessary to the comparables.

**Functional Utility/Windows:** The design of the floors is such that office space is only located around the building perimeter; the floor plate is such that creating good private offices is difficult. Offices tend to be “chopped up” or primarily bullpen areas. In addition, fenestration is inferior to most modern buildings with glass curtain walls. Each comparable was adjusted downward for superior utility and fenestration, and a larger adjustment is made to Rent 5 due to its superior, full-floor layout with integrated reception area.

**Parking:** Neither the subject nor any of the comparables include free parking in the rental rate. Neither the subject nor Rent 5 have on-site parking, but it is available nearby. Based on a comparison of Rent 5 with Rents 1-4, there does not appear to be a premium for on-site parking availability, and no adjustment is made.

**Space Size:** The comparable leases are all similar in size to the typical tenant space that would be anticipated for the subject. As a result, no adjustment for this physical characteristic was required.

## **Conclusion**

The adjustment analysis is detailed on a previous page. After all the necessary adjustments have been made, the adjusted rental indications reflect an overall adjusted range between \$39.65 and \$43.13 per square foot, full service. The average adjusted rental rate is \$41.22 per s.f. In the reconciliation, we have placed slightly more weight on Rents 1 and 5, located on Pennsylvania Avenue, and concluded to a market rent that is slightly above the average.

Based on this information, the market rental rate selected for the subject's space of **\$41.50** per square foot, full service. This rate is below the average Class B rental rate in this submarket, which is reasonable given the inefficient layout and inferior condition of the subject, compared to most Class B office buildings in the East End.

Market leases would be on a full service basis with a base year expense stop and an average lease term of ten years. In addition, based on the rent comparables, a tenant improvement allowance of \$50.00 per s.f. is considered appropriate for new leases, and \$15.00 is reasonable for renewal leases. No free rent concessions are judged appropriate for re-let or renewal deals.

**Retail Rents**

The subject retail space is somewhat unusual, in that it lacks good street visibility and is not in a traditional retail district in the East End, like 7<sup>th</sup> Street or Gallery Place. Even the area one block north of Pennsylvania Avenue between 7<sup>th</sup> and 14<sup>th</sup> Streets features a higher concentration of retail space. There are almost no residents nearby, other than the Lexington at Market Square. However, merchants at the property benefit from traffic generated by tourists visiting the Old Clock Tower, and the daytime office population. The adjacent federal buildings have self-contained cafeterias for employee use, which limits lunchtime patrons somewhat. Due to the security concerns with a GSA tenant, entering the building is only possible through security checkpoints. The retail space is almost all indoors and there is no visibility from the sidewalk. Exterior signage advertises the retail space, but the access and visibility disadvantages do negatively affect tenant sales and, consequently, the rent they can afford to pay.

We have analyzed the following retail rents in the CBD and East End to help determine market rent for the retail space:

<u>Address</u>	<u>Tenant</u>	<u>Size</u>	<u>\$/SF</u>	<u>Expenses</u>	<u>Date/ Term (mos)</u>	<u>Escalation/ TI PSF</u>	<u>Free Rent</u>
1001 Pennsylvania Ave, NW	Cosi (Renew)	3,542	\$32.00	NNN	Nov-10 60	2.50% As Is	0
1350 Eye St, NW	Capital Segway	1,672	\$38.61	NNN	Feb-11 60	3% As-Is	0
1850 M Street, NW	Qdoba	2,482	\$39.00	NNN	Mar-11 120	2.50% As-Is	0
1901 L Street, NW	Confidential	1,864	\$75.00	NNN	May-11 120	9% yr 4 & 8 \$30.00	4
1825-75 K Street, NW	Restaurant	7,560	\$43.00	NNN	Sep-11 120	2.50% \$150.00	0
1401 K Street, NW	DC Coast (Renew)	10,485	\$41.00	NNN	Jun-10 72	2.35% As-Is	0
455 Mass Ave, NW	Subway	1,680	\$38.00	NNN	Aug-10 120	3% \$55.00	11
	Buhda Bar	9,348	\$40.00	NNN	May-10 120	15% Yr 6 \$0.00	1
2121 K Street, NW	Bobby's Burgers	3,766	\$38.00	NNN	Apr-11 120	2.50% \$175.00	0
	Café Phillips	2,193	\$41.50	NNN	Feb-11 120	2.50% \$61.00	0

These represent confirmed transactions for ground level retail space in office buildings in the East End and CBD. The range of rents is \$32.00 to \$75.00 per square foot, NNN, with most around \$40.00/sf. Due to the visibility and access factors we mentioned, the subject would be expected to achieve rents at or below the low end of the range.

We have discussed the retail market with leasing brokers and property managers who

represent property close to the subject on Pennsylvania Avenue. It must be understood that precise details regarding recent transactions are kept confidential. Nevertheless, we believe our discussions have helped to “zero in” on a potential market rent for the subject.

**1001 Pennsylvania Avenue** is a Class A office building that occupies the entire block between 10<sup>th</sup> and 11<sup>th</sup> Streets, and Pennsylvania Avenue and D Street, across the street from the subject. We spoke with Bill Miller, leasing agent for the retail space. COSI renewed their store at 10<sup>th</sup> and D Streets for \$32.00 psf in late 2010. The broker believes the landlord was motivated to keep this business, as two other stores were vacating at the same time; this tenant received a favorable rental rate that is below market. Space on 11<sup>th</sup> Street is under negotiation with a fine wine store for +/- \$50.00/sf. The former Ten Penh restaurant (7,283 sf) is at 10<sup>th</sup> and Pennsylvania Ave. It has high quality finishes, and the broker expects it to lease in the “upper \$40’s psf” with a \$50/sf landlord TI. Mr. Miller is familiar with the subject and had tried to bring a tenant to one of the vacant restaurant spaces over ten years ago. That deal fell through when the prospect saw the condition the former tenant left the property, as no TI allowance was provided. He believes it could rent for \$35 to \$40 per square foot if the landlord provided \$100/sf in TI, assuming continued GSA ownership. Interior retail stores would be lower but would not require improvements.

**1300 Pennsylvania Avenue** is the Reagan Building/ITC. Bill Jacobini spoke about the food court space. Like the subject, patrons of this building must enter through security. While he would not provide specific deals, Mr. Jacobini indicated that the food court tenants are paying \$45-\$60 per square foot, triple net. He realizes this is lower than more established food courts with high concentrations of CBD office tenants, like International Square (\$75-\$80 psf recent renewals, per our research). The subject food court is inferior in condition and layout, as-is, so a lower rent would be expected that what has been achieved at the Class A Reagan Building.

**1331 Pennsylvania Avenue** is National Place. John Assadorian handles the retail leasing. Street level retail space leases for \$25 to \$40 per square foot, depending on size, visibility, and location. There is a food court in the building on the second floor. Rents are listed as negotiable and the broker would not provide any indication of achieved rents. Other brokers in the market opined to a range of \$65 to \$75 per square foot in this building. The property is connected to the J.W. Marriott Hotel. Again, due to the older age of the subject and need to pass through security, a lower rent would be applicable under continued GSA occupancy.

Considering the rent comparable data and discussions with brokers, we would expect achievable rents to be \$40 and less for the subject property.

### Subject Leasing

We were also provided a copy of the rent roll for the property, as currently leased. No new deals have been executed in recent years due to the uncertainty regarding the future of the building. Some tenants pay percentage rent only. For those paying monthly rent, the average lease rate is \$24.51 per square foot. The range of rents is \$8.10 to \$169.93 per square foot. Most are \$15.00 to \$30.00 per square foot, plus pass thru expenses. The average food court rent is \$25.40 per square foot, and the average small retailer rent is \$20.37 per square foot. These figures are well below what is being achieved anywhere else in the market. Under the assumption of continued government occupancy, we assume that the property will be well maintained, tenants will have assurance of continued occupancy, and the property will be managed with an eye towards maximizing revenue. As a result, a rent higher than what has been achieved in the recent past should be achievable.

### Retail Rent Conclusion

Based on our analysis of the CBD/East End rent comparables, discussions with the brokers, and consideration of achieved rents at the property during a difficult business period for the tenants, we have concluded to the following market rents for the retail space:

Office Space	181,646 SF	\$41.50 FS
PA Avenue Restaurants	10,884 SF	\$35.00 NNN
Interior Retail Space	17,785 SF	\$30.00 NNN
Food Court	8,916 SF	\$35.00 NNN

These rent estimates take into account the iconic status of the building and ability to generate customers who visit the clock tower. This is balanced against the older age of the retail space, lack of street visibility, need to enter through security, and location on the south side of Pennsylvania Avenue – a location that lacks a core of retail activity. Also, the restaurant GLA includes mezzanine area that is less valuable than first floor space. If the property were redeveloped and under private ownership, higher rents could be achieved, as discussed in Section 2 of this report.

## **Parking Rent**

The subject has seven unmarked parking spaces available for tenant use behind the building. There are only garages nearby that offer monthly parking. The few remaining surface lots downtown are located in NoMa or Mount Vernon Square, as most vacant lots have been developed with office buildings. We note the following parking rates in the East End and Mount Vernon Square:

<b>Building Address</b>	<b>Submarket</b>	<b>Type</b>	<b>Monthly Parking Rate</b>
400 10th Street, NW	East End	Garage	\$ 300.00
1300 Pennsylvania Ave, NW	East End	Garage	\$ 270.00
601 Pennsylvania Ave, NW	East End	Garage	\$ 270.00
1201 Eye St, NW	East End	Garage	\$ 260.00
581 K Street, NW	Mt Vernon Sq	Lot	\$ 160.00
993 6th St, NW	Mt Vernon Sq	Lot	\$ 140.00
640 NY Ave, NW	Mt Vernon Sq	Garage	\$ 220.00

Garage rents close to the subject are some of the highest downtown, at \$270 to \$300 per month. Analysis of the three Mount Vernon Square rents indicates a spread of \$60 to \$80 per month between a surface lot and a garage. Based on this spread, we estimate market rent for the surface spaces at the subject to be \$200 per month, or \$2,400 per space per year.

## **HISTORICAL OPERATING RESULTS**

A property's operating history is a key consideration in pricing by potential investors. Primary considerations include the current occupancy rate, near term lease expirations, the relationship of actual rents to market rent, and historical operating costs.

## **Current Occupancy and Lease Rates**

As of the date of this appraisal, the office space is 95% occupied by federal government tenants. With most government owned buildings, the property is managed by the General Services Administration, based on an occupancy agreement between the occupying department and GSA. This occupancy agreement defines an annual rent payment to be made from the department's budget to the GSA, and also defines areas of management responsibility. We have been informed there are no active operating agreements with the tenants, as they have all expired or will expire by the end of September.

Under normal circumstances this appraisal would be based on our estimate of market rent applied to NRA, but we would include some analysis of the appropriateness of the occupancy



agreement in light of the market rent estimate. Due to the lack of an occupancy agreement, this comparison is not possible. Consistent with normal GSA requirements, we have applied market rent and market net rentable square footage in valuing the property.

### **Historic Operating Expenses**

Only limited historic data was provided in the Business Plan. This is presented below:

	2010		Budget 2011	
<u>Revenues</u>	<u>Total</u>	<u>PSF</u>	<u>Total</u>	<u>PSF</u>
Rent	\$6,139,158	\$33.80	\$6,112,480	\$33.65
Outlease	<u>\$203,177</u>	<u>\$1.12</u>	<u>\$162,175</u>	<u>\$0.89</u>
Total	\$6,342,335	\$34.92	\$6,274,655	\$34.54
 <u>Expenses</u>				
Cleaning	\$638,108	\$3.51	\$588,868	\$3.24
Utilities	\$1,201,462	\$6.61	\$1,251,310	\$6.89
R&M	\$2,075,771	\$11.43	\$648,648	\$3.57
Security	\$3,174,362	\$17.48	\$3,027,078	\$16.66
G&A	\$3,763,869	\$20.72	\$3,507,202	\$19.31
Other	<u>\$253,965</u>	<u>\$1.40</u>	<u>\$1,721,684</u>	<u>\$9.48</u>
Total	\$10,853,572	\$59.75	\$10,744,790	\$59.15

The square footage figures are based on our estimate of market rentable office area, or 181,646 square feet. The retail portion is separately managed by a third party operator who has a master lease on this space. We have considered these expenses in our analysis, but have relied primarily upon expense comparables to estimate stabilized operating expenses for the subject.

### **STABILIZED OPERATING FORECAST**

#### **Gross Income**

Potential Gross Income reflects the maximum amount of income which a property is capable of producing at full occupancy. Income may be derived from a number of different sources, including base rent, percentage rent, expense reimbursements, and miscellaneous activities. Effective gross income is estimated by subtracting vacancy and collection losses from Potential Gross Income.

Base Rent: This is based on the estimate of market rent applied to the estimated net rentable area for each portion of the building. The stabilized gross rent estimate is \$8,764,869.

Expense Reimbursements: There would be no expense reimbursements from office tenants during the first (base) year of the analysis. For retail tenants, we have included the Food Court and Retail CAM expense, as well as their proportional share of real estate taxes. The total is \$687,665.

Parking Income: This is \$200 per month, or \$16,800 for the seven spaces.

Cart/Kiosk Income: This is based on the current rent received from miscellaneous carts and kiosks around the food court, and the plaza. It includes six carts and one kiosk (Segway), generating \$72,768 per year. Individual rents vary from \$700 to \$1,200 per month. The area for these spaces is not included in NRA. We have stabilized the income at \$75,000 per year.

Vacancy and Collection Losses: As described in the market analysis section of this report, the local office market currently maintains a vacancy at 10%. It is 10.3% for Class B space and 5.1% for Class C. The East End retail vacancy is just 5.1%. The subject office space is 95% occupied, despite the physical shortcomings of the building. We have excluded retail space from GLA that is dysfunctional and would likely never be occupied. Therefore, we have estimated long term vacancy and collection loss at 6.0%, including 1% collection loss.

Effective Gross Income: Deducting vacancy and collection losses from projected PGI yields a stabilized EGI estimate of \$8,971,675.

## **Operating Expenses**

In order to estimate the operating expenses for the subject, we have considered several expense comparables from the downtown Washington, DC office market, which are summarized below:

<u>Comp</u>	<u>Comp 1</u>	<u>Comp 2</u>	<u>Comp 3</u>	<u>Comp 4</u>
Size (SF)	350,000	475,000	275,000	150,000
Year Built	1980s	1992	2005	1993
Expense Year	2010	2009	Budg 2011	2010
Insurance	\$0.23	\$0.35	\$0.18	\$0.28
Repairs & Maintenance	\$2.77	\$2.18	\$1.45	\$3.41
Management	\$1.72	\$1.47	\$1.23	\$0.77
As % of EGI	2.5%	2.0%	NA	3.0%
Janitorial/Cleaning \1	\$2.57	\$3.53	\$3.51	\$3.96
Utilities	\$3.32	\$2.97	\$3.95	\$4.06
General & Administrative	<u>\$1.27</u>	<u>\$1.33</u>	<u>\$0.79</u>	<u>\$0.34</u>
Total (Excluding RET)	\$11.88	\$11.83	\$11.11	\$12.82

1\ Includes contract services

Real Estate Taxes: As previously described in the Real Estate Tax section of this report, real estate taxes are based on our analysis of market comparables. We estimated real estate taxes at \$5.53 per rentable square foot on a stabilized basis.

Insurance: The expense comparables indicate a range of \$0.18 to \$0.35 per square foot for hazard and liability insurance. We have utilized \$0.35 per s.f. of total rentable area as our stabilized estimate of this expense. This is at the upper end of the market range, which reflects the government occupancy and expense of restoring a historic structure in the event of damage, and large building area compared to rentable area.

Repair and Maintenance Costs include charges for maintaining the interior and exterior of the building and grounds. Repairs and maintenance expenses for the comparables generally appear to be between \$1.45 and \$3.41 per square foot, excluding janitorial and contract service costs. The subject expense was over \$11.00 per square foot in 2010, which included capital repairs; the budget for FY 2011 is \$3.57 per square foot of office area. We have made a separate deduction for the cost to perform urgent repairs. Nevertheless, due to the old age of building systems and need to perform continued maintenance, we have concluded to an expense that is above the range of the comparables, or \$4.50 per square foot of office area. Retail expenses are treated separately.

Management Fees: For the comparables, management fees ranged from 2% to 3% as a percentage of potential gross income. These rates are relatively low, and reflect the very high office rents which apply in downtown Washington. Management fees have been estimated at 2.75 percent, which results in a management expense of \$1.13 per s.f. of total rentable area. This amount is within the range indicated by the expense comparables.

Janitorial & Contract Services: The subject actual and budgeted expense ranges from \$3.24 to \$3.51 per square feet. The comparables range from \$2.57 to \$3.96 per square foot, including all contract services. We have estimated an expense at \$3.25 per square foot for the subject, excluding security. An additional \$0.50 per square foot is included separately for basic security, for a total of \$3.75 per square foot for cleaning and contract services, which is towards the upper end of the comparable range.

Security: For this expense, expense comparables in our files indicate a separate expense of \$0.33 to \$0.89 per square foot. The subject history is over \$16.00 per square foot. This includes the cost to man four entry points with 2-3 people per door. It is a special requirement of the tenant, and such extensive security would not be included in a normal full service rental rate. We have employed market expense of \$0.50 per square foot, and assumed any additional security requirements of the tenant would be billed directly to the tenant.

Utilities are a variable expense that is heavily dependent on occupancy. The expense comparables ranged between \$2.97 and \$4.06 per square foot. The subject actual expense and budget is \$6.61 to \$6.89 per square foot. Separate utilities are included for the retail tenants in their CAM expense. The subject has very inefficient HVAC systems and utilizes hot and cold water from the adjacent IRS Building. The large atrium area is atypical for the market and more expensive to heat and cool. Placing most weight on this history, we have stabilized this expense at \$6.00 per square foot. This is slightly below the subject history, as we assume any utility operations outside normal business hours would be billed to the tenant.

Administrative costs include legal and accounting fees as well as office expenses for management. The comparable range is \$0.34 to \$1.33 per square foot. The subject historical expenses are not applicable as they include large amounts for national and regional GSA expenses that would not apply under private ownership. We have estimated these costs for the subject at \$1.00 per square foot.

Food Court Expense: In regional malls, additional expenses for food court tenants can be \$15 to \$25 per square foot, over and above normal retail CAM. This covers the cost of cleaning, bussing tables, and extra trash removal. The company that manages the retail portion of the property budgets \$22.84/sf of food court area for this expense, or \$189,703. We have employed \$190,000. This is fully reimbursed by food court tenants.

Retail CAM: Historic expenses for this portion of the property are not available. Some of the subject tenants pay electricity directly, while others reimburse for their share from a master meter. Included in CAM is the HVAC for the common area and cleaning and trash removal. The third party budget shows an expense of over \$25.00 per square foot, which is well above market norms. It appears to include some additional payroll and other expenses that would not exist if the entire building were under one management: For example, several functions are currently being duplicated between the GSA management and operation of the office and the third party operation of the retail. Under unified management and ownership, we have estimated the expense at \$290,000, or \$7.72 per square foot of retail area. This is fully reimbursed by all the retail tenants.

Reserves for Replacement: The expense comparables do not indicate a reserve for replacement amount. In the Washington, DC office market, overall cap rates are typically derived from sales based on NOI calculated after deduction of all operating expenses, but not reserves for replacement. Due to the age of the subject and continued need for capital replacements, we have included reserves of \$0.50 per square foot.

### Expense Conclusion

Total estimated stabilized operating expenses for the subject property (including reserves) equals \$4,950,850, or \$22.58 per total rentable square foot. **(Note: The figures psf on the following page do not add to the same amount, since the \$4.50/sf is applied to office GLA only).** The office expenses amount to \$15.73 per square foot of rentable office area, excluding taxes. The comparable expenses are \$11.11 to \$12.82 per square foot, excluding taxes. The subject expenses are +/- \$3.00 to \$4.00 per square foot higher than the comparables due to 1) Higher utility costs (\$2.00/sf) and 2) Higher repair and maintenance costs (\$1.50 to \$2.00 psf). These figures are well supported by the comparables, and are considered to be reasonable for this market.

### **Net Operating Income**

Subtracting estimated expenses from the projection of effective gross income results in an indicated stabilized NOI of \$4,020,824. The stabilized income and expense projection is presented on the following page.

**DIRECT CAPITALIZATION ANALYSIS  
DC0029 ZZ - OLD POST OFFICE  
SEPTEMBER 2011**

					<u>Total</u>
<b>REVENUES</b>					
Office Space	181,646 SF	\$41.50 FS			\$7,538,319
PA Avenue Restaurants	10,884 SF	\$35.00 NNN			380,940
Interior Retail Space	17,785 SF	\$30.00 NNN			533,550
Food Court	8,916 SF	\$35.00 NNN			312,060
Expense Recoveries	37,585 SF	\$18.30 PSF Retail			687,665
Parking Income	7 Spaces	\$2,400 Per Space			16,800
Cart Income					<u>75,000</u>
Potential Gross Income					\$9,544,335
Vacancy and Collection Allowance: All Space at		6.00%			<u>(572,660)</u>
Effective Gross Income					\$8,971,675
<b>OPERATING EXPENSES</b>					
Real Estate Taxes		\$5.53	1,211,300		
Insurance		0.35	76,731		
Repairs & Maintenance		4.50	817,408		
Management	2.75%	1.13	246,721		
Janitorial/Services		3.25	590,350		
Security		0.50	109,616		
Utilities		6.00	1,089,878		
Food Court Expense		0.87	190,000		
Retail CAM		1.32	290,000		
General & Administrative		1.00	219,231		
Reserves		0.50	109,616		
Total Operating Expenses		<u>\$22.58</u>			<u>\$4,950,850</u>
<b>NET OPERATING INCOME</b>		\$18.34			\$4,020,824
<b>INDICATED VALUE AS IS</b>					
Net Operating Income Capitalized at		6.00%			\$67,013,735
Less: Urgent Repairs					(\$10,100,000)
Less: TI for Restaurants at	\$100 PSF				<u>(\$1,088,400)</u>
Indicated As-Is Value					\$55,825,335
			<b>Rounded</b>		<b>\$56,000,000</b>
			<b>Per SF</b>		<b>\$255.44</b>

**DIRECT CAPITALIZATION****Estimate of Overall Rate**

An overall capitalization rate is applied to the estimate of Net Operating Income to arrive at an indication of stabilized property value. An overall rate is simply an expression of the relationship between a single year's net operating income and total property value.

We have estimated a capitalization rate for the subject via derivation from comparable sales, as well as surveys of investors active in the market for properties such as the subject.

**Derivation from Comparable Sales**

This is the most direct way to derive indications of acceptable overall rates. In this analysis, estimated or actual net operating income is divided by price for a recent comparable sale. The resulting ratio is the overall rate which applied to that sale. In comparing these indications to the subject property, we consider differences in the quantity, quality, and durability of the income stream, since these are the factors which affect variations in acceptable rates of return.

The sales summarized below have been considered in this analysis. Sales 2, 3 and 4 have been included from the Sales Comparison Approach.

<b><u>Address</u></b>	<b><u>Yr Blt/Ren</u></b>	<b><u>% Occ</u></b>	<b><u>Date</u></b>	<b><u>Price</u></b>	<b><u>Area (RSF)</u></b>	<b><u>Price/SF</u></b>	<b><u>OAR</u></b>
529 14th St, NW	1928/1985	95.3%	Jun-11	\$167,500,000	420,000	398.81	6.0%
1140 Connecticut Ave, NW	1966	99.0%	Jan-11	\$80,250,000	186,721	429.79	6.3%
1255 23rd St, NW	1983/2008	94.7%	Jan-11	\$137,400,000	341,443	402.41	6.5%
1211 Connecticut Ave, NW	1967	100.0%	Dec-10	\$49,500,000	125,119	395.62	6.5%
1501 M St, NW	1991/2006	94.0%	Nov-10	\$79,187,000	177,525	446.06	6.6%
<b>Supplemental-Class A Sales</b>							
325 7th St, NW	1991/1993	93.0%	Jun-11	\$139,000,000	169,542	819.86	4.9%
700 6th St, NW	2009	91.0%	Jun-11	\$191,000,000	300,000	636.67	5.5%
1100-1101 4th St, SW	2010	100.0%	May-11	\$356,000,000	639,546	556.64	5.6%
701-801 Penn Ave, NW	1990	96.2%	Mar-11	\$615,000,000	703,997	873.58	4.6%
1101 K St, NW	2006	82.0%	Mar-11	\$199,000,000	293,598	677.80	4.6%
1111 Penn Ave, NW	1967/2002	100.0%	Oct-10	\$220,000,000	331,074	664.50	4.9%
1101 Penn Ave, NW	1898/1990	88.0%	Jun-10	\$180,000,000	219,627	819.57	5.5%

All are good quality office buildings which exceed 100,000 square feet in size, and are in downtown Washington, DC. The first five sales are considered Class B assets and indicate rates in the range of 6.0% to 6.6%. The Class A sales include "trophy" properties which attract the most significant institutional interest; this competition results in buyers bidding up the prices, and consequently lowering the OARs. The range of OARs for the Class A properties is 4.6% to 5.5%, but the lowest rates are reflective of properties where contract NOI is viewed as below market by the buyers. The buyers expect to be able to increase these returns near-term as below-market leases expire.

The subject is an iconic landmark building, which would increase investor interest in the asset. The location is excellent. However, there are several negative factors that would have an upward affect on the capitalization rate:

- The building requires continual maintenance due to its age and lack of a recent renovation;
- Contract rent is projected to be at market, with no near-term upside potential;
- The floor plates are inefficient for modern office use;

Considering these positive and negative factors, a rate above those extracted from the Class A sales, and at the low end of the Class B sales, is appropriate, or +/-6.0%.

#### Investor Survey

The “Korpacz Real Estate Investor Survey” for the Third Quarter 201 indicates that, for institutional investments in Washington, DC office buildings, overall cap rates average 5.98%, based on a range of 4.5% to 8.0%. The average reflects a decrease of 66 basis points during the past year. The subject would be expected to fall near the average; its age and condition and functional obsolescence keep it from the low end of the range, but its location and iconic status warrant a rate below the high end.

We also discussed current investor sentiment with Drew Flood of Cassidy Turley, a major downtown investment sales broker. He stated that the lowest rates, of 4.5% to 5.0%, would be appropriate for the top tier, trophy assets with the best income quality, and potential to increase rents. The 5.0% to 5.5% range is for Class A buildings with little upside. Class B assets have fewer buyers competing for a purchase, and trade at +/-6% cap rates. One factor affecting investor appetites today is the current uncertainty regarding federal government demand for office space, and potential cuts to the federal budget. As a result, some conservative investors are taking a wait and see approach for the DC office market.

Considering the characteristics discussed above, a rate of 6% is supported for the subject.

#### Conclusion

Comparable sales activity is considered to be the most reliable indicator of applicable yield rate, since the investor surveys primarily represent “targets” which are often higher than the rates which apply to completed sales. Based on the information discussed above, we have utilized a 6.0% rate for the subject, assuming GSA occupancy.



**Capitalization of Net Operating Income**

The direct capitalization analysis is summarized on the table which was previously presented. Applying the selected rate to the estimated NOI for the subject building reflects a stabilized value of \$67,013,735. From this, we deduct the costs to perform immediate repairs (including 20% profit) of \$10,100,000. In addition, we deduct the \$100/sf TI allowance estimated for the two restaurant spaces, or \$1,100,000. The resulting value estimate as-is, assuming occupancy by the federal government, is **\$56,000,000 (rounded)**.

**Income Approach – The Annex**Market Rent

We have been asked to hypothecate occupancy of the Annex by the federal government. In our opinion, the only viable option for government occupancy of the Annex would be for back office operations, or perhaps exhibit space connected to the mission of the agencies occupying the Old Post Office. The space, if properly demised and finished, would be most comparable to below-grade office space in the district.

We have previously estimated market rent for the above grade office at the Old Post Office at \$41.50/sf, full service. The following table shows the range of below grade office rents downtown, and the discount to the above-grade rental rate. Note that below grade space is not common in the District.

<u>Address</u>	<u>Building Average Asking Rent</u>			
	<u>Class</u>	<u>Upper</u>	<u>Lower</u>	<u>Difference</u>
607 14th St, NW	A	\$55.00	\$30.00	45%
919 18th St, NW	B	\$45.00	\$35.00	22%
1101 15th St, NW	B	\$39.00	\$25.00	36%
1156 15th St, NW	B	\$41.00	\$25.00	39%
1020 19th St, NW	A	\$44.00	\$27.50	38%
1225 Eye St, NW	B	\$45.00	\$22.00	51%
1620 Eye St, NW	B	\$43.00	\$24.00	44%
1100 H St, NW	B	\$38.00	\$23.00	39%
2021 K St, NW	B	\$52.00	\$42.00	19%
1625 Mass Ave, NW	B	\$45.00	\$26.00	42%
1110 Vermont Ave, NW	A	\$48.00	\$26.50	45%
<b>Average</b>				<b>38%</b>

Below grade office space rents for \$25 to \$42 per square foot, full service, which represents a discount of 19% to 51% from the above grade office rents. The most common rent for Class B buildings is \$25 to \$27.50 per square foot. The average discount to the above grade rent is 38%. We estimate market rent for the Annex at \$27.00 per square foot, or 35% below the above grade office rental rate. As previously stated, the subject will require \$35 per square foot to demise the office areas and install ceilings and floor covering.

**STABILIZED OPERATING FORECAST****Gross Income**

Potential Gross Income reflects the maximum amount of income which a property is capable of producing at full occupancy. Income may be derived from a number of different sources, including base rent, percentage rent, expense reimbursements, and miscellaneous activities. Effective gross income is estimated by subtracting vacancy and collection losses from Potential Gross Income.

Base Rent: This is based on the estimate of market rent applied to the estimated net rentable area. The stabilized gross rent estimate is \$1,989,259.

Expense Reimbursements: There would be no expense reimbursements from office tenants during the first (base) year of the analysis.

Vacancy and Collection Losses: We have estimated long term vacancy and collection loss at 6.0%, including 1% collection loss, as previously discussed.

Effective Gross Income: Deducting vacancy and collection losses from projected PGI yields a stabilized EGI estimate of \$1,869,903.

**Operating Expenses**

In order to estimate the operating expenses for the subject, we have considered the same expense comparables as the previous analysis. No operating history is available.

<u>Comp</u>	<u>Comp 1</u>	<u>Comp 2</u>	<u>Comp 3</u>	<u>Comp 4</u>
Size (SF)	350,000	475,000	275,000	150,000
Year Built	1980s	1992	2005	1993
Expense Year	2010	2009	Budg 2011	2010
Insurance	\$0.23	\$0.35	\$0.18	\$0.28
Repairs & Maintenance	\$2.77	\$2.18	\$1.45	\$3.41
Management	\$1.72	\$1.47	\$1.23	\$0.77
As % of EGI	2.5%	2.0%	NA	3.0%
Janitorial/Cleaning \1	\$2.57	\$3.53	\$3.51	\$3.96
Utilities	\$3.32	\$2.97	\$3.95	\$4.06
General & Administrative	<u>\$1.27</u>	<u>\$1.33</u>	<u>\$0.79</u>	<u>\$0.34</u>
Total (Excluding RET)	\$11.88	\$11.83	\$11.11	\$12.82

1\ Includes contract services

Real Estate Taxes: As previously described in the Real Estate Tax section of this report, real estate taxes are based on our analysis of market comparables. We estimated real estate taxes at \$2.98 per rentable square foot on a stabilized basis.

Insurance: The expense comparables indicate a range of \$0.18 to \$0.35 per square foot for hazard and liability insurance. We have utilized \$0.35 per s.f. of total rentable area as our stabilized estimate of this expense. This is due to the small size of the property and low building efficiency compared to GBA.

Repair and Maintenance Costs include charges for maintaining the interior and exterior of the building and grounds. Repairs and maintenance expenses for the comparables generally appear to be between \$1.45 and \$3.41 per square foot, excluding janitorial and contract service costs. We have made a separate deduction for the cost to perform urgent repairs and install new HVAC systems. We have concluded to an expense that is near the middle of the range of the comparables, or \$2.25 per square foot of rentable area.

Management Fees: For the comparables, management fees ranged from 2% to 3% as a percentage of potential gross income. These rates are relatively low, and reflect the very high office rents which apply in downtown Washington. Management fees have been estimated at 3 percent due to the lower rental rate for space below grade, which results in a management expense of \$0.76 per s.f. of rentable area. This amount is at the low end of the range indicated by the expense comparables.

Janitorial & Contract Services: The Comparable range from \$2.57 to \$3.96 per square foot, including all contract services. We have estimated an expense at \$3.00 per square foot for the subject. An additional \$0.50 per square foot is included for basic security, for a total of \$3.50 per square foot for cleaning and contract services.

Security: For this expense, expense comparables in our files indicate a separate expense of \$0.33 to \$0.89 per square foot. Extensive GSA security would not be included in a normal full service rental rate. We have employed market expense of \$0.50 per square foot, and assumed any additional security requirements of the tenant would be billed directly to the tenant.

Utilities are a variable expense that is heavily dependent on occupancy. The expense comparables ranged between \$2.97 and \$4.06 per square foot. We have accounted for the cost to install new HVAC units, so they should be fairly efficient. We have stabilized this expense at \$3.25 per square foot, slightly above the low end of the comparable range.

Administrative costs include legal and accounting fees as well as office expenses for management. The comparable range is \$0.34 to \$1.33 per square foot. We have estimated these costs for the subject at \$1.00 per square foot.

Reserves for Replacement: The expense comparables do not indicate a reserve for replacement amount. We have included \$0.25/sf for the property as we assume new HVAC systems will be installed as part of the analysis. This is in line with investor surveys for office buildings.

#### Expense Conclusion

Total estimated stabilized operating expenses for the subject property equals \$1,056,765, or \$14.34 per rentable square foot. The expenses amount to \$11.11 per square foot of rentable office area, excluding taxes and reserves. The comparable expenses are \$11.11 to \$12.82 per square foot, excluding taxes, which provide excellent support for our estimate.

#### **Net Operating Income**

Subtracting estimated expenses from the projection of effective gross income results in an indicated stabilized NOI of \$813,138. The stabilized income and expense projection is presented on the following page.

**DIRECT CAPITALIZATION ANALYSIS  
DC0029ZZ- ANNEX BUILDING  
SEPTEMBER 2011**

			<u>Total</u>
<b>REVENUES</b>			
Office Space	73,676 SF	\$27.00 FS	\$1,989,259
Expense Recoveries			-
Potential Gross Income			<u>\$1,989,259</u>
Vacancy and Collection Allowance: All Space at		6.00%	<u>(119,356)</u>
Effective Gross Income			\$1,869,903
<b>OPERATING EXPENSES</b>			
Real Estate Taxes		\$2.98	219,700
Insurance		0.35	25,787
Repairs & Maintenance		2.25	165,772
Management	3.00%	0.76	56,097
Janitorial/Services		3.00	221,029
Security		0.50	36,838
Utilities		3.25	239,448
General & Administrative		1.00	73,676
Reserves		<u>0.25</u>	18,419
Total Operating Expenses		\$14.34	<u>\$1,056,765</u>
<b>NET OPERATING INCOME</b>		\$11.04	\$813,138
<b>INDICATED VALUE AS IS</b>			
Net Operating Income Capitalized at		6.25%	\$13,010,206
Less: Urgent Repairs			(\$1,950,000)
Less: TI at	\$35 PSF		<u>(\$2,578,669)</u>
Indicated As-Is Value			\$8,481,537
		<b>Rounded Per SF</b>	<b>\$8,500,000 \$115.37</b>

## **DIRECT CAPITALIZATION**

### **Estimate of Overall Rate**

Please refer to the prior discussion concerning an appropriate capitalization rate for the Old Post Office Building. We concluded to a rate of 6.0%. Additional factors affecting the capitalization rate for the subject include the following:

#### Negative Factors

- The building has poor visibility and no real presence;
- The design is poor and quality is low for office tenants.

#### Positive Factors

- The property will have new systems upon completion of the necessary improvements to be made rentable.

Considering these positive and negative factors, a rate slightly above that selected for the Old Post Office is appropriate, or +/-6.25%.

### **Capitalization of Net Operating Income**

The direct capitalization analysis is summarized on the table which was previously presented. Applying the selected rate to the estimated NOI for the subject building reflects a stabilized value of \$13,010,216. From this, we deduct the costs to perform immediate repairs (including 20% profit) of \$1,950,000. In addition, we deduct the \$35/sf TI allowance to demise and finish basic office space, or \$2,578,669. The resulting value estimate as-is, assuming occupancy by the federal government, is **\$8,500,000**.

**SALES COMPARISON APPROACH**

For this appraisal, the direct comparison technique has been used to estimate the subject property's value. Direct comparison involves analysis of each comparable based on those elements which have a measurable effect on market value. The unit price of each comparable is then adjusted, on the basis of differences between its elements and those of the subject, to reflect the characteristics of the subject property. Assuming that the market will determine price for the subject in the same manner as the comparables, this analysis results in an indication of price for the subject property.

The following transactions have been selected from the local market as being most comparable to the Old Post Office Building.

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
<b>Property/Address</b>	National Press Building 529 14th Street, NW Washington, DC	1140 Connecticut Ave Washington, DC	Floyd Akers Bldg 1255 23rd St, NW Washington, DC	Longfellow Plaza 1211 Connecticut Ave Washington, DC	1501 M Street, NW Washington, DC
<b>Sale Date</b>	Jun-11	Jan-11	Jan-11	Dec-10	Nov-10
<b>Net Rentable Area (SF)</b>	420,000	186,721	341,443	125,119	177,525
<b>Land Area (SF)</b>	44,139	17,960	55,539	18,665	17,137
<b>Floor Area Ratio</b>	9.52	10.40	6.15	6.70	10.36
<b>Year Built/Renovated</b>	1928/1985	1966	1983/2008	1967/2008	1991/2006
<b>Quality/Condition</b>	Average	Average	Good	Average	Good
<b>Parking</b>	None	1.61 per 1,000 sf	.73 per 1,000 sf	.90 per 1,000 sf	.82 per 1,000 sf
<b>Consideration</b>	\$167,500,000	\$80,250,000	\$137,400,000	\$49,500,000	\$79,187,000
<b>Price Per S.F. (NRA)</b>	\$398.81	\$429.79	\$402.41	\$395.62	\$446.06
<b>Capitalization Rate</b>	6.0%	6.3%	6.5%	6.5%	6.6%



**IMPROVED SALES MAP**



**Improved Sale No. 1****Property Identification**

<b>Record ID</b>	3621
<b>Property Type</b>	Office, Class B
<b>Property Name</b>	National Press Building
<b>Address</b>	529 14th Street, NW, Washington, Washington D.C. 20045
<b>Tax ID</b>	0254-0053

**Sale Data**

<b>Grantor</b>	Press Building LLC
<b>Grantee</b>	CPT NP Building LLC
<b>Sale Date</b>	June 23, 2011
<b>Deed Book/Page</b>	2011069218
<b>Verification</b>	Drew Flood, Broker

<b>Sale Price</b>	\$167,500,000
<b>Cash Equivalent</b>	\$167,500,000

**Land Data**

<b>Land Size</b>	1.013 Acres or 44,139 SF
<b>Zoning</b>	C-4
<b>Topography</b>	Sloping, at street grade
<b>Utilities</b>	Public

**General Physical Data**

<b>Building Type</b>	Multi Tenant
<b>Net SF</b>	420,000
<b>Stories</b>	14
<b>Year Built</b>	1928 1985 Renovated
<b>Condition</b>	Average
<b>Building Class</b>	B

**Improved Sale No. 1 Continued****Income Analysis**

<b>Net Operating Income</b>	\$10,050,000
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**Indicators**

<b>Sale Price/Net SF</b>	\$398.81
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<b>Floor Area Ratio</b>	9.52
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<b>Land to Building Ratio</b>	0.11:1
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<b>Occupancy at Sale</b>	95.3%
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<b>Overall or Cap Rate</b>	6%
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<b>Net Operating Income/Sq. Ft.</b>	\$23.93
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**Remarks**

This building is located at the SWC of F Street and 14th Street, just north of Pennsylvania Avenue and two blocks from the White House. It has 17% retail space on the ground floor and lower level, including a Filene's Basement department store. The office space is leased to many small tenants, and the broker reports that most have below market rents. The buyer viewed the acquisition as an opportunity to increase NOI and achieve a higher return in the first two years. Note that the NRA excludes the National Press Club space, which is occupied rent free for 70 years. This is a long-established private club that lends some prestige to the building. The pro forma NOI included additional expense for anticipated increase in property taxes, as the assessment is about 30% below the purchase price. Quadrangle, the main partner in the selling entity, acquired a minority interest (3%-5%) in the buying entity, but the broker stated that this was after the closing and the recorded price reflects 100% fee ownership transfer.

**Improved Sale No. 2****Property Identification**

<b>Record ID</b>	3622
<b>Property Type</b>	Office, Class B
<b>Address</b>	1140 Connecticut Avenue, NW, Washington, Washington D.C. 20036
<b>Tax ID</b>	0161-0032

**Sale Data**

<b>Grantor</b>	CESC 1140 Connecticut Ave LP
<b>Grantee</b>	WRIT 1140 CT, LLC
<b>Sale Date</b>	January 11, 2011
<b>Deed Book/Page</b>	2011004971
<b>Verification</b>	Will Collins, Broker

<b>Sale Price</b>	\$80,250,000
<b>Cash Equivalent</b>	\$80,250,000

**Land Data**

<b>Land Size</b>	0.412 Acres or 17,960 SF
<b>Zoning</b>	C-4
<b>Topography</b>	level

**Improved Sale No. 2 Continued****General Physical Data**

<b>Building Type</b>	Multi Tenant
<b>Net SF</b>	186,721
<b>Stories</b>	12
<b>Year Built</b>	1966 Periodic renovations
<b>Condition</b>	Average
<b>Retail Space</b>	Ground Floor

**Income Analysis**

<b>Net Operating Income</b>	\$5,056,000
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**Indicators**

<b>Sale Price/Net SF</b>	\$429.79
<b>Floor Area Ratio</b>	10.40
<b>Land to Building Ratio</b>	0.10:1
<b>Occupancy at Sale</b>	99%
<b>Overall or Cap Rate</b>	6.3%
<b>Net Operating Income/Sq. Ft.</b>	\$27.08

**Remarks**

The building is located mid-block but has frontage on both Connecticut Avenue and 18th Street, NW. It was 99% leased to 25 office tenants and four retail tenants including the Improv Comedy Club. The seller had provided about \$2,000,000 in capital improvements over the prior two years. The broker reports contract rents were about 10% below market, and there was not significant rollover (over 15%) in any one year. There is some upside potential to increase NOI over time. The property has an underground parking garage and is within walking distance of two metro stations.

**Improved Sale No. 3****Property Identification**

<b>Record ID</b>	3623
<b>Property Type</b>	Office, Class A
<b>Property Name</b>	Floyd Akers Bldg
<b>Address</b>	1255 23rd Street, NW, Washington, Washington D.C. 20037
<b>Tax ID</b>	0050-0086

**Sale Data**

<b>Grantor</b>	Capitol 50 Associates
<b>Grantee</b>	1255 23rd Street Trust
<b>Sale Date</b>	January 28, 2011
<b>Deed Book/Page</b>	2011012720
<b>Verification</b>	Broker, Will Collins

<b>Sale Price</b>	\$137,400,000
<b>Cash Equivalent</b>	\$137,400,000

**Land Data**

<b>Land Size</b>	1.275 Acres or 55,539 SF
<b>Zoning</b>	CR
<b>Topography</b>	Level

**General Physical Data**

<b>Building Type</b>	Multi Tenant
<b>Net SF</b>	341,443
<b>Stories</b>	8
<b>Year Built</b>	1983 2008 renovation
<b>Condition</b>	Good

**Income Analysis**

<b>Net Operating Income</b>	\$8,930,000
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**Improved Sale No. 3 Continued****Indicators**

<b>Sale Price/Net SF</b>	\$402.41
<b>Floor Area Ratio</b>	6.15
<b>Land to Building Ratio</b>	0.16:1
<b>Occupancy at Sale</b>	95%
<b>Overall or Cap Rate</b>	6.5%
<b>Net Operating Income/Sq. Ft.</b>	\$26.15

**Remarks**

This is a mid block building with access from both 22nd and 23rd Streets in the West End. It has glass windows on all four sides and good light to each floor. The broker reports little near-term rollover exposure, and an NOI that was close to market. The lobby and common areas were renovated in 2008. The building has 248 parking spaces in a below-grade garage. Amenities include a rooftop courtyard with trees and on-site fitness center for tenant use.

**Improved Sale No. 4****Property Identification**

<b>Record ID</b>	3624
<b>Property Type</b>	Office, Class B
<b>Property Name</b>	Longfellow Plaza
<b>Address</b>	1211 Connecticut Avenue, NW, Washington, Washington D.C. 20036
<b>Tax ID</b>	0159-0084

**Sale Data**

<b>Grantor</b>	1211 Financial Associates LLC
<b>Grantee</b>	FP 1211 Connecticut Ave LLC
<b>Sale Date</b>	December 09, 2010
<b>Deed Book/Page</b>	2010109367
<b>Sale History</b>	\$35,225,000 7/2009
<b>Verification</b>	Dek Potts, Broker (HFF)
<b>Sale Price</b>	\$49,500,000
<b>Cash Equivalent</b>	\$49,500,000

**Land Data**

<b>Land Size</b>	0.428 Acres or 18,665 SF
<b>Zoning</b>	C3C
<b>Topography</b>	Level

**General Physical Data**

<b>Building Type</b>	Multi Tenant
<b>Net SF</b>	125,119
<b>Stories</b>	8
<b>Year Built</b>	1967 2008 Updates
<b>Condition</b>	Average

**Improved Sale No. 4 Continued****Income Analysis**

**Net Operating Income**                      \$3,217,500

**Indicators**

<b>Sale Price/Net SF</b>	\$395.62
<b>Floor Area Ratio</b>	6.70
<b>Land to Building Ratio</b>	0.15:1
<b>Occupancy at Sale</b>	100%
<b>Overall or Cap Rate</b>	6.5%
<b>Net Operating Income/Sq. Ft.</b>	\$25.72

**Remarks**

This mid-block building features a Washington Sport Club on the ground floor and lower level (17% of NRA), and 24 office tenants. It is between Rhode Island Avenue and N Street, NW, in the Dupont Circle neighborhood. The largest tenant is IRG, a division of L3 Communications, and could be considered a credit tenant. They occupy 29% of the building through June 2014. They have a renewal option and have been in occupancy for 15 years. The broker described NOI as stable with little rollover exposure through 2013, and rents were slightly below market. In 2008, the building underwent a \$1.5 million improvement to elevator cabs and the lobbies. It has a 112 car garage.



**Improved Sale No. 5****Property Identification**

<b>Record ID</b>	3625
<b>Property Type</b>	Office, Class A
<b>Address</b>	1501 M Street, NW, Washington, Washington D.C. 20005
<b>Tax ID</b>	0196-0834 & 0833

**Sale Data**

<b>Grantor</b>	JBC Funds 1501 LLC
<b>Grantee</b>	I&G DC REIT Inc
<b>Sale Date</b>	November 23, 2010
<b>Deed Book/Page</b>	2010112188
<b>Sale History</b>	\$59,749,834 June 2009
<b>Prior Sale Info</b>	7.5% cap; 90% leased
<b>Verification</b>	Drew Flood, broker

<b>Sale Price</b>	\$79,187,000
<b>Cash Equivalent</b>	\$79,187,000

**Land Data**

<b>Land Size</b>	0.393 Acres or 17,137 SF
<b>Zoning</b>	C-4

**Improved Sale No. 5 Continued****General Physical Data**

<b>Building Type</b>	Multi Tenant
<b>Net SF</b>	177,525
<b>Stories</b>	11
<b>Year Built</b>	1991 2006 renovation
<b>Condition</b>	Good

**Income Analysis**

<b>Net Operating Income</b>	\$5,226,000
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**Indicators**

<b>Sale Price/Net SF</b>	\$446.06
<b>Floor Area Ratio</b>	10.36
<b>Land to Building Ratio</b>	0.10:1
<b>Occupancy at Sale</b>	94.4%
<b>Overall or Cap Rate</b>	6.5%
<b>Net Operating Income/Sq. Ft.</b>	\$28.99

**Remarks**

This property is located at the NWC of M and 15th Streets in the CBD. Tenants are mostly law firms and trade associations. The retail space on the ground floor is vacant, and there was still 9,000 square feet of shell office space on the second floor. One of the lots is subject to a ground lease through 12/2086, but the majority of the site was bought in fee simple. Based on information provided by a third party involved with the prior sale, the value of the ground lease is estimated at \$6,500,000. The property has underground parking for 146 cars, operated by Colonial Parking. The seller had been able to increase NOI at the property since their purchase in 2009, but capitalization rates have also declined since the prior sale, resulting in appreciation of the asset. The capitalization rate is based upon in place NOI but had the potential to increase to 6.9% after the first year.

**SALES COMPARISON ANALYSIS  
OLD POST OFFICE - DC0029ZZ  
WASHINGTON, DC  
SEPTEMBER 2011**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
<b>Property/Address</b>	National Press Building 529 14th Street, NW Washington, DC	1140 Connecticut Ave Washington, DC	Floyd Akers Bldg 1255 23rd St, NW Washington, DC	Longfellow Plaza 1211 Connecticut Ave Washington, DC	1501 M Street, NW Washington, DC
<b>Sale Date</b>	Jun-11	Jan-11	Jan-11	Dec-10	Nov-10
<b>Net Rentable Area (SF)</b>	420,000	186,721	341,443	125,119	177,525
<b>Land Area (SF)</b>	44,139	17,960	55,539	18,665	17,137
<b>Floor Area Ratio</b>	9.52	10.40	6.15	6.70	10.36
<b>Year Built/Renovated</b>	1928/1985	1966	1983/2008	1967/2008	1991/2006
<b>Quality/Condition</b>	Average	Average	Good	Average	Good
<b>Parking</b>	None	1.61 per 1,000 sf	.73 per 1,000 sf	.90 per 1,000 sf	.82 per 1,000 sf
<b>Consideration</b>	\$167,500,000	\$80,250,000	\$137,400,000	\$49,500,000	\$79,187,000
<b>Price Per S.F. (NRA)</b>	\$398.81	\$429.79	\$402.41	\$395.62	\$446.06
<b>Capitalization Rate</b>	6.0%	6.3%	6.5%	6.5%	6.6%
<b>Transaction Adjustments</b>					
Property Rights Conveyed	0%	0%	0%	0%	8.21%
Adjusted Price	\$398.81	\$429.79	\$402.41	\$395.62	\$482.68
Financing	0%	0%	0%	0%	0%
Adjusted Price	\$398.81	\$429.79	\$402.41	\$395.62	\$482.68
Conditions of Sale	0%	0%	0%	0%	0%
Adjusted Price	\$398.81	\$429.79	\$402.41	\$395.62	\$482.68
<b>Time Adjustments</b>	0%	5%	5%	5.5%	6.0%
Adjusted Price	\$398.81	\$451.27	\$422.53	\$417.38	\$511.64
<b>Comparative Adjustments</b>					
Location/Visibility/Views	5%	10%	10%	10%	5%
Physical Characteristics					
Age & Condition	-10.0%	-10%	-15.0%	-10.0%	-20%
Building Size	0%	0%	0%	0%	0%
Building Efficiency	-10%	-10%	-10%	-10%	-10%
Retail Space	0%	5%	5%	0%	5%
Parking	0%	-5%	-2.5%	-2.5%	-2.5%
Use/Zoning	0%	0%	0%	0%	0%
Economic Characteristics	-10%	-10%	-10%	-10%	-10%
Non-Realty Components	0%	0%	0%	0%	0%
Net Comparative Adjustment	-25%	-20%	-23%	-23%	-33%
<b>Adjusted Price Per S.F.</b>	\$299.11	\$361.02	\$327.46	\$323.47	\$345.35
<b>Average Adjusted Unit Price</b>		\$331.28			
<b>Median Adjusted Unit Price</b>		\$327.46			
<b>Indicated Subject Value</b>		<b>\$325.00</b>			
Subject's Size		219,231			
Indicated Value		\$71,250,075			
Less: Estimated cost of Urgent Repairs		(\$10,100,000)			
Less: Estimated cost of Restaurant TI		(\$1,088,400)			
Indicated As-Is Value		\$60,061,675			
<b>Rounded</b>		<b>\$60,000,000</b>			

## **ADJUSTMENT OF COMPARABLE IMPROVED SALES**

### **Transaction Adjustments**

Property Rights Conveyed: The comparables must first be adjusted to reflect differences in the property rights conveyed between buyer and seller. Most transfers of real estate convey fee simple, leased fee, or leasehold estates. To the extent that there are differences between the estate being appraised and that transferred in a comparable, an adjustment may be required. Adjustments in this category also recognize the impact on price of transfers of less than 100% ownership of the property. In the case of the subject property analysis, Sale 5 involves a leasehold interest in part of the land. The value of this was estimated at \$6,500,000, based on the terms of the lease. This has been applied as an upward adjustment of 8.21%. No adjustments are warranted for the other sales.

Financing Adjustments: Financing arranged by the seller, in the form of assumed financing or a note accepted for part of the purchase price, may affect the price paid for the property. Common examples include: 1) the provision of seller financing when other borrowing options are not available, which tends to elevate price; 2) Seller or assumed financing at favorable terms, which also tends to elevate price; and 3) Existing financing at unfavorable terms which is required, typically by an existing lender, to transfer with the property, which tends to depress price. None of the properties involved seller or assumed financing; No adjustments were therefore required.

Conditions of Sale: Unusual conditions affecting the transaction may result in a price which is higher or lower than that expected under a normal, arms length transfer. Common examples include a seller under pressure to raise capital or unusual relationships between the buyer and the seller. No adjustments were required.

### **Market Conditions Adjustments**

Changes in Market Conditions: Over time, changing market conditions affect the pricing of real estate. Each sale must be adjusted to reflect these changes between the date of sale and the date of the appraisal. Sale 1 is reflective of current market conditions. Given the decline in capitalization rates over the last year, Sales 2-5 were adjusted upward slightly for market conditions.

### **Comparative Characteristic Adjustments**

Location & Visibility: The subject is located in the East End on Pennsylvania Avenue. It has a corner location and excellent visibility and access to Metro. The location is most similar to Sale

1, which received a small upward adjustment for location off Pennsylvania Avenue. The other sales have inferior locations in the CBD, and require upward adjustment. Sales 2-4 received larger adjustments due to their mid-block locations.

Physical Characteristics: These adjustments reflect differences in site characteristics and an array of building factors, including age/condition, size, parking availability and income characteristics.

**Age/Condition:** We have considered the subject as if the urgent repairs have been made and later made a deduction for the cost of these repairs, including profit. Even after the repairs are completed, the building would be considered in average condition with older style office space and unrenovated rest rooms and common areas. All of the comparables received more recent renovations or are newer in terms of age, and were adjusted downward for this factor.

**Building Size:** The comparables, which range from 125,119 to 420,000 square feet, do not indicate a pattern of change in price based on differences in size. In fact, the largest comparable (Sale 4) sold for the lowest overall cap rate among the sales. Where operating real estate such as office space in very large office markets such as Washington, DC is concerned, it has been our experience that size is not normally a barrier to interest among investors. Sales of very large buildings, and large portfolios of buildings occasionally occur, and normally do not indicate a loss in value due to bulk. The subject size is within the range of the comparables. As a result, no adjustment for this physical characteristic was required.

**Building Efficiency:** The subject building has an abnormally high core factor; we have applied a 25% core factor to the usable square footage, which is well above the comparables. The excess rentable area is located in hallways which, while usable to a government tenant, is less valuable than demised office space. The comparables have been adjusted upward by 10% to reflect the lower value of these areas.

**Retail Space:** The subject includes about 14% retail space, which commands a higher rental rate than does office space. The percentage of retail area is comparable to Sales 1 (14%) and 4 (17%), and no adjustment is made. Sales 2, 3 and 5 have under 5% retail area and were adjusted upward for this factor.

**Parking:** The subject has only seven surface spaces which generate a small amount of revenue; the parking ratio is 0.03 per 1,000 square feet of rentable area. Garage parking provides a modest amount of additional net income to CBD office buildings.

Small upward adjustments were made to Sales 2-5 for their superior parking ratios.

Economic Characteristics: These adjustments include attributes of a property that affect its current and future income stream, primarily vacancy at the time of sale, durability of existing income, and expense ratios. The subject is valued as if fully leased with rents at market levels.

Income durability will be good, and tenant quality is assumed to be average. This is generally consistent with the Sales. However, due to the inefficient HVAC system at the property and large atrium, energy costs are much higher than typical, reducing net operating income. Each comparable received a downward adjustment for the inefficiencies of the subject that result in higher operating costs.

Use: The use for which a property was purchased has an effect on price. While the comparables utilized in this analysis were purchased for the same general highest and best use as the subject property, minor variations may be present which affect value. None of the comparables is substantially different from the subject in terms of use, and no adjustment was required.

Non-Realty Components of Value: If the subject or the comparables include personal property, business concerns, or other intangible elements which do not constitute real estate, these items must be considered in this analysis. Certain property types, such as hotels or restaurants, typically include personal property as part of a transaction. No personal property is included in the subject or in the comparables, and no adjustments are necessary.

## **Conclusion**

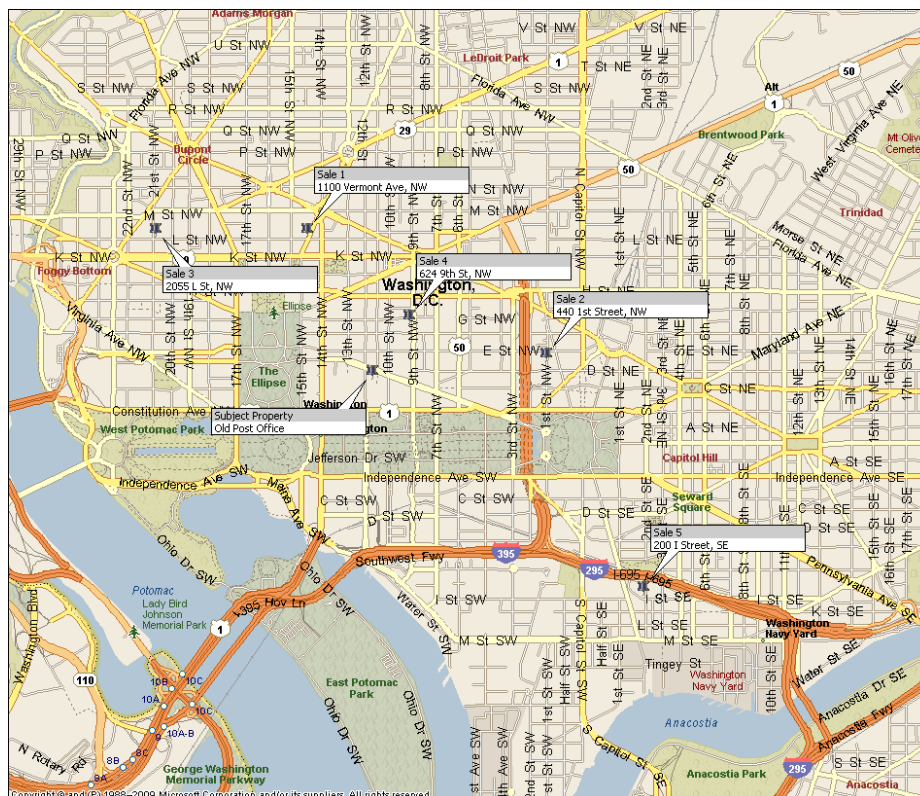
The adjustments and their resulting indications are summarized on the preceding table. After adjustments, the sales indicate a range of \$299.11 to \$361.02 per square foot, with an average of \$331.28 per square foot. Sale 1 is deemed most similar in terms of location and physical factors, and received most weight. As a result, we have concluded to a value for the subject that is slightly below the average and median indications, or \$325 per square foot. Applied to the subject's 219,231 square feet of net rentable area, the indicated preliminary market value is \$71,250,000. This equates to an EGIM of 7.94. From this, we have deducted the cost of near term capital expenditures discussed in the Income Approach, resulting in a final market value estimate, as-is, of **\$60,000,000** (rounded).

## Annex Building

There are no properties that are truly comparable to the annex. In its current condition, it would be most similar to the shell building sales analyzed in Part 2 of this report (Value Scenario #5). However, the subject is inferior in many respects to these properties, due to lack of street visibility, lack of exterior windows, and because over 1/3 of the NRA is below grade. Due to the client requirement that we consider the Annex “as if” occupied by the federal government, we have provided an analysis of these shell building sales. However, as continued occupancy is not the highest and best use of the property as improved, we have placed little weight on this approach.

The following table summarizes the shell building sales. Full sale profiles with photographs can be found on pages 181-190 in Part 2 of the valuation analysis.

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
<b>Property/Address</b>	1100 Vermont Ave, NW Washington, DC	440 1st Street, NW Washington, DC	2055 L Street, NW Washington, DC	624 9th St, NW Washington, DC	200 Eye St, SE Washington, DC
<b>Sale Date</b>	Apr-11	Dec-10	Dec-10	Mar-10	Oct-09
<b>Net Rentable Area (SF)</b>	79,510	104,746	102,854	93,553	421,017
<b>Land Area (SF)</b>	6,978	16,479	Condo-NA	12,998	92,817
<b>Floor Area Ratio</b>	11.39	6.36		7.20	4.54
<b>Year Built/Renovated</b>	1961	1982	1963	1981	1959
<b>Quality/Condition</b>	Below Average	Below Average	Below Average	Below Average	Below Average
<b>Parking</b>	2.5 per 1,000 sf	0.91 per 1,000 sf	1.0 per 1,000 sf	None	Bsm't Conv. To Gar.
<b>Consideration</b>	\$14,200,000	\$23,300,000	\$12,750,000	\$21,000,000	\$85,200,000
<b>Price Per S.F. (NRA)</b>	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
<b>Occupancy Rate</b>	0.0%	0.0%	2.7%	80.0%	0.0%



## **Adjustment of Comparable Improved Sales**

### **Transaction Adjustments**

Property Rights Conveyed: The comparables must first be adjusted to reflect differences in the property rights conveyed between buyer and seller. Most transfers of real estate convey fee simple, leased fee, or leasehold estates. To the extent that there are differences between the estate being appraised and that transferred in a comparable, an adjustment may be required. Adjustments in this category also recognize the impact on price of transfers of less than 100% ownership of the property. All of the sales involved purchase of a fee simple or leased fee analysis limited only by existing space leases. Sale 2 was purchased in two stages, one transaction for the leasehold interest followed by a second transaction for the leased fee interest under a ground lease. We have combined both purchases, which is reflective of the value of the entire fee simple interest.

Financing Adjustments: Financing arranged by the seller, in the form of assumed financing or a note accepted for part of the purchase price, may affect the price paid for the property. Common examples include: 1) the provision of seller financing when other borrowing options are not available, which tends to elevate price; 2) Seller or assumed financing at favorable terms, which also tends to elevate price; and 3) Existing financing at unfavorable terms which is required, typically by an existing lender, to transfer with the property, which tends to depress price. None of the properties involved seller or assumed financing; No adjustments were therefore required.

Conditions of Sale: Unusual conditions affecting the transaction may result in a price which is higher or lower than that expected under a normal, arms length transfer. Common examples include a seller under pressure to raise capital or unusual relationships between the buyer and the seller. Sale 1 was acquired at auction due to foreclosure. When properties are sold at a foreclosure auction, they may be subject to additional costs due to buyer's premiums paid to the auctioneer, and prices may be below market due to inadequate marketing effort. Although this property is very well located, its price per square foot was closer to the low end of the range indicated by the comparables. We have applied an upward adjustment to reflect these factors. Sale 3 involves the acquisition of the top three floors of an office building along with a small first floor retail space, which had been subdivided into a condominium. The seller, Verizon, had used the entire building to house telecommunications equipment, and would continue to do so on the lower four floors of the building. The buyer was required to perform base building upgrades to the exterior, mechanical system, and lobby, which would benefit the entire building. This most likely had a downward impact on the price paid for the buyer's condominium, and we have applied an upward adjustment which would reflect the need to spend approximately \$25 per square foot on base building improvements which would benefit



the seller's space. No adjustments were required for the remaining comparables.

### **Market Conditions Adjustments**

Changes in Market Conditions: Over time, changing market conditions affect the pricing of real estate. Each sale must be adjusted to reflect these changes between the date of sale and the date of the appraisal. Sale 1 is reflective of current market conditions, having sold earlier in 2011. Sales 2 and 3 were transferred in late 2010, and required a slight upward adjustment to reflect the decline in office capitalization rates since that time. Sale 4 transferred earlier in 2010, and required a greater upward adjustment. Sale 5 transferred in late 2009, nearly two years ago, and overall cap rates for Washington, DC office buildings have declined substantially since that time (7.11% PwC avg in 4<sup>th</sup> Qtr 2009, vs. 5.98% 3<sup>rd</sup> Qtr 2011) resulting in strong increases in office sale prices. This sale was adjusted upward by 15%.

### **Comparative Characteristic Adjustments**

Location & Visibility: The subject is located in the East End on Pennsylvania Avenue. It has a mid-block location with poor visibility, but good access to Metro. Sales 1 and 4 have corner locations in the East End, and were adjusted downward slightly to reflect the subject's mid-block location. This adjustment is tempered slightly by the Pennsylvania Avenue address of the subject. Sales 2 and 3 are located in the Capitol Hill and West End submarkets, respectively, where average office rents are somewhat lower than those in the East End. These sales received upward adjustments which were slightly tempered by the subject's inferior visibility. Finally, Sale 5 is located in the Capitol Riverfront, which is secondary to more traditional downtown locations. The property has good visibility, but still received the largest upward adjustment for its inferior market location.

Physical Characteristics: These adjustments reflect differences in site characteristics and an array of building factors, including age/condition, size, parking availability and income characteristics.

**Age/Condition:** All of the sales were purchased for a major renovation, which is comparable to our expectations for the subject. No adjustments were necessary.

**Building Size:** The subject has been analyzed based on our estimate of effective net rentable area, which is 73,676 square feet. Since the analysis reflects the value of a proposed renovation project, larger buildings may result in more complicated projects, which can require longer lease-up periods, delaying the owner's ability to enjoy the financial benefits of the renovation. Sales 1, 2, 3, and 4 are similar to the subject. Sale 5 is much larger than the subject, and received an upward adjustment.

**Space Layout/Windows:** The subject building has incurable functional obsolescence in that three of the exterior walls abut the adjacent IRS building, resulting in no exterior windows. The atrium does provide some natural light to the center of the building, but this is far less desirable than traditional office buildings with perimeter windows. As discussed in the income analysis assuming continued federal government occupancy, the space is most comparable to below grade office, which shows a 35% discount in rent compared to above grade space. A smaller adjustment was made to Sale 5 since a portion of the area is below grade and will be converted to parking. All of the other comparables reflect above grade square footage only.

**Parking:** The subject has no parking on site. Garage parking provides a modest amount of additional net income to CBD office buildings. Small upward adjustments were made to Sales 1, 2, 3 and 5 for their superior parking ratios.

Use / Zoning: No adjustments were required for this factor.

Economic Characteristics: These adjustments include attributes of a property that affect its current and future income stream, primarily vacancy at the time of sale, durability of existing income, and expense ratios. The subject is fully vacant and needs substantial renovation to create occupancy. Sales 1, 2, 3, and 5 were vacant or largely vacant at the time of sale, and no adjustments were needed. Sale 4 was purchased with a sale/leaseback from the original owner, and there were also a number of other tenants which were expected to remain in the property and continue to generate income during the planning and pre-development period. This sale required a downward adjustment.

Non-Realty Components of Value: If the subject or the comparables include personal property, business concerns, or other intangible elements which do not constitute real estate, these items must be considered in this analysis. Certain property types, such as hotels or restaurants, typically include personal property as part of a transaction. No personal property is included in the subject or in the comparables, and no adjustments are necessary.

**SALES COMPARISON ANALYSIS  
ANNEX BUILDING - DC0029ZZ  
WASHINGTON, DC  
SEPTEMBER 2011**

	<b>Comp 1</b>	<b>Comp 2</b>	<b>Comp 3</b>	<b>Comp 4</b>	<b>Comp 5</b>
<b>Property/Address</b>	1100 Vermont Ave, NW Washington, DC	440 1st Street, NW Washington, DC	2055 L Street, NW Washington, DC	624 9th St, NW Washington, DC	200 Eye St, SE Washington, DC
<b>Sale Date</b>	Apr-11	Dec-10	Dec-10	Mar-10	Oct-09
<b>Net Rentable Area (SF)</b>	79,510	104,746	102,854	93,553	421,017
<b>Land Area (SF)</b>	6,978	16,479	Condo-NA	12,998	92,817
<b>Floor Area Ratio</b>	11.39	6.36		7.20	4.54
<b>Year Built/Renovated</b>	1961	1982	1963	1981	1959
<b>Quality/Condition</b>	Below Average	Below Average	Below Average	Below Average	Below Average
<b>Parking</b>	2.5 per 1,000 sf	0.91 per 1,000 sf	1.0 per 1,000 sf	None	Bsm't Conv. To Gar.
<b>Consideration</b>	\$14,200,000	\$23,300,000	\$12,750,000	\$21,000,000	\$85,200,000
<b>Price Per S.F. (NRA)</b>	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
<b>Occupancy Rate</b>	0.0%	0.0%	2.7%	80.0%	0.0%
<b>Transaction Adjustments</b>					
Property Rights Conveyed	0%	0%	0%	0%	0.00%
Adjusted Price	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
Financing	0%	0%	0%	0%	0%
Adjusted Price	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
Conditions of Sale	10%	0%	25%	0%	0%
Adjusted Price	\$196.45	\$222.44	\$154.95	\$224.47	\$202.37
<b>Time Adjustments</b>	0%	5%	5%	10%	15%
Adjusted Price	\$196.45	\$233.57	\$162.70	\$246.92	\$232.72
<b>Comparative Adjustments</b>					
Location/Visibility/Views	-5%	5%	5%	-5%	10%
Physical Characteristics					
Age & Condition	0%	0%	0%	0%	0%
Building Size	0%	0%	0%	0%	10%
Space Layout/Windows	-35%	-35%	-35%	-35%	-30%
Parking	-5%	-5%	-5%	0%	-5%
Use/Zoning	0%	0%	0%	0%	0%
Economic Characteristics	0%	0%	0%	-10%	0%
Non-Reality Components	0%	0%	0%	0%	0%
Net Comparative Adjustment	-45%	-35%	-35%	-50%	-15%
<b>Adjusted Price Per S.F.</b>	\$108.05	\$151.82	\$105.76	\$123.46	\$197.81
<b>Average Adjusted Unit Price</b>		\$137.38			
<b>Median Adjusted Unit Price</b>		\$123.46			
<b>Indicated Subject Value</b>		<b>\$130.00</b>			
Subject's Size		73,676			
Indicated Value		\$9,577,880			
<b>Rounded</b>		<b>\$9,600,000</b>			

## **Conclusion**

The adjustments and their resulting indications are summarized on the preceding table. After adjustments, the sales indicate a range of \$105.76 to \$197.81 per square foot, with an average of \$137.38 per square foot.

We have placed the least amount of emphasis on Sales 1, 3, and 5. Sale 1 was a recent foreclosure auction, and while basic aspects of the sale were confirmed and the deed was clear that the buyer was the high bidder at the price of \$14,200,000, the buyer would not respond to questions about additional potential costs, such as auction premiums or assumed debt. While we do not believe that there was any existing debt that was assumed as part of the auction, the lack of specificity makes this sale somewhat less reliable. Sale 3 was the purchase of a component of a building in condominium form, and the buyer was not able to specify the cost of base building improvements which would benefit the owner of the remaining space. While we adjusted for this factor, we would prefer greater certainty regarding the extent of these costs. Finally, Sale 5 was purchased by the District of Columbia, which had the property under lease at the time. The price is substantially higher than the remaining comparables, and it is possible that the buyer, being a government entity, was less sensitive to market considerations than would be an investor.

The remaining two sales adjusted to \$151.82 (Sale 2) and \$123.46 (Sale 4) per square foot, which is within the range indicated by all five comparables, and brackets the average. As a result, we have concluded to a value for the subject that at \$130 per square foot. Applied to the subject's 73,676 square feet of effective net rentable area available for renovation, the indicated value of the Annex, in its as-is condition, assuming continued government occupancy, is \$9,577,880, rounded to **\$9,600,000**.

## RECONCILIATION AND CORRELATION

During the process of reconciling the indications of value derived from the various approaches employed in the appraisal, the appraiser considers the quantity and quality of the information available for use in each approach, as well as the applicability of each approach to the appraisal problem at hand.

Two of the three traditional approaches to value were utilized for the as-is value estimate of the subject property. The indications from each approach are as follows:

	<u>Sales Comparison Approach</u>	<u>Income Approach</u>	<u>Cost Approach</u>
Scenario 1			
Annex Land Value	\$28,000,000	N/A	N/A
Scenario 2			
Old PO Land Value	\$115,000,000	N/A	N/A
Scenario 3			
Annex at Govt. Occ.	\$9,600,000	\$8,500,000	N/A
Scenario 4			
Old PO at Govt Occ.	\$60,000,000	\$56,000,000	N/A

The Income Approach is generally considered to be the most reliable indicator of value for income producing properties, because pricing decisions by investors are based on income analyses. The applicability of the approach is undermined, however, when limited data are available to support estimates of revenues, expenses, and required investment yields.

There were significant amounts of data available for the confident application of the Income Approach, including comparable rents, comparable expenses, and indications of acceptable yield rates. More importantly, the subject is an income producing property, and this approach is judged to most accurately reflect pricing considerations of active buyers/investors. As a result, the Income Approach received the greatest weight in our judgment of the subject property's value assuming continued government occupancy.

The Sales Comparison Approach is most reliable when a number of confirmed sales of similar properties are available for analysis. Value contributions by standard property components can be easily identified and adjusted for. If the subject property has unique or specialized elements, or if there are substantial variations between the comparables and the subject, the indicated value is less reliable. A number of recent comparable sales of office buildings in downtown Washington, DC were available for this analysis. A large volume of detail was available regarding each of the sales, increasing the reliability of the adjustments. With regard to this appraisal, the sales selected provided a good indication of current pricing in the office

market in the area. However, the Old Post Office is different in many respects from the comparables; the Annex has no true sales for comparison upon completion of renovation, and is best compared to buildings purchased as shells. As a result, only secondary weight was placed on this approach for both properties, assuming continued government occupancy. However, it is the sole applicable approach for estimating the underlying land for each property, assuming the land was vacant.

The Cost Approach is considered to be a reliable indicator of the value of special use properties. Since such properties are purchased for a specific use rather than general income production, value tends to be driven by the value of the site and the depreciated replacement cost of the improvements. This approach is also applicable to new properties, where little or no functional or external obsolescence is present. In this instance, the Cost Approach is not applicable as the subject is neither new, nor a special use property. There is significant depreciation including physical and functional elements, the estimates of which are subject to significant potential error. Further, investors do not rely on this approach when purchasing a fully leased income property. As a result, the approach has not been developed in the appraisal. Based on the value indications summarized above, we estimate the market value as-is of the fee simple interest of the property under the four requested scenarios is estimated as follows:

Scenario 1	
Annex Land Value	\$28,000,000
Scenario 2	
Old PO Land Value	\$115,000,000
Scenario 3	
Annex at Govt. Occ.	\$8,500,000
Scenario 4	
Old PO at Govt Occ.	\$56,000,000

For scenarios 3 and 4, we have made deductions for urgent capital repairs and costs to lease the space as follows. These are considered urgent requirements needed to either make the vacant space usable, or to cure a significant deficiency, and would reflect the likely behavior of private sector investors analyzing the properties:

<u>Item</u>	<u>Old Post Office</u>	<u>Annex</u>
Install HVAC to Annex\1		\$875,000
Replace Switchgear	\$1,650,000	
Skylight Repairs	\$1,035,000	\$250,000
Exterior Windows	\$2,766,952	
Exterior Wall Repairs	\$2,520,821	
Miscellaneous\2	\$0	\$503,675
Steel Beams at PA Ave	<u>\$445,000</u>	<u>0</u>
Total	\$8,417,773	\$1,628,675
With 20% Profit	\$10,101,328	\$1,954,410
<b><u>Rounded</u></b>	<b><u>\$10,100,000</u></b>	<b><u>\$1,950,000</u></b>

1\ Estimate for equipment for 350 ton capacity

@ \$2,000/ton from MVS, Section 53, PP 4 & 5

Other costs from ABP.

2\ Demise from IRS, misc electrical and elevator @ \$5/sf

**Part 2 -  
Value Scenario 5**

## **HIGHEST AND BEST USE**

This analysis addresses Value Scenario 5, an estimate of value for the subject property on an as-is basis, based on the property's Highest and Best Use and to a typical market investor. This scenario makes no assumption of continued occupancy by the federal government.

### **HIGHEST AND BEST USE AS THOUGH VACANT**

An analysis of the HBU of the site as though vacant was generated in Part 1 of this report, and concluded the following:

Of the legal, physically possible, and financially feasible uses, it is our opinion that office use with first floor retail space is the maximally profitable use, and therefore highest and best use. These uses not only enjoy strong demand in the local market, they are the most common uses in the DD/C-5 zone to the north of the property, and are most compatible with surrounding development. While there is sporadic hotel and residential development within downtown Washington, DC, office is by far the preferred land use in the area. As will be shown in the detailed HBU in Part 2 of the appraisal, these alternate uses also generate a lower return to the land than do office and retail. Based on these patterns observed throughout downtown, office and retail development would be expected to generate the highest profitability and return to invested capital over the long term.

### **HIGHEST AND BEST USE AS IMPROVED**

Analysis of the HBU of a property as-is, or as currently improved, establishes the use factors to be considered in the valuation. In most cases, the current use of a property is also its highest and best use. However, there are instances where renovation would result in higher profitability, either through increasing the value of the current use, or through permitting a more valuable alternative use. In rare cases, the value of the site as though vacant and available for an alternate use, is greater than any other use. In these instances, demolition of the existing improvements to allow for the re-use of the site is the highest and best use.

The general implication of these considerations is that the current use is the highest and best use, unless its value would be enhanced by a planned renovation or demolition of the improvements. The financial requirement of an alternative use is that the value of the property after completion of demolition (i.e., the value of the site) or renovation must clearly exceed the cost to acquire the property in its as-is condition plus the costs of demolition or renovation.

The current uses at the subject property include (1) For the Old Post Office building, retail and food court uses on the ground floor, retail and office uses on the first floor, minor management



oriented office space and vacant retail space on the mezzanine or balcony floor, and office use on floors two through eight. Floor nine is windowless space, which is currently utilized for storage and back office space, comparable to basement areas in other office buildings; and (2) For the Annex building, retail and public oriented space, which is currently vacant, and has remained so since the mid-1990's.

## **ANALYSIS OF LEGALLY PERMISSIBLE USES**

As discussed earlier in the Zoning section of this report, the subject property is indicated as being unzoned on the Washington, DC zoning maps. This reflects that the subject property is part of land originally and continually owned by the United States government, and it is part of an area known as the Federal Triangle. For purposes of this appraisal, based on patterns of zoning in surrounding areas, it appears that the property could be treated in a manner comparable to properties zoned DD/C-5, which is the designation applied to privately owned properties on the north side of Pennsylvania Avenue. This zone is also known as the Pennsylvania Avenue Development District. The property is also subject to the Downtown Development District (DD) overlay, which encourages the addition of arts, retail, and entertainment uses, particularly on the first floor of a new building. According to the standards of the DD/C-5 zone, permitted uses include office, retail, hotel, residential, and services uses (among others), with mixed use being allowable and common in the area. The permitted density is high, with the base FAR at 10.0, potentially increasing to 12.0 if certain public amenities are included in a project. Building height is limited to 130 feet (13 stories), though this can be increased to 160 feet under certain circumstances. Thus, based on the property's lack of zoning, and consideration of the DD/C-5 zone which applies to nearby properties, the subject could potentially be developed with a wide range of uses, at a density level amount the highest allowable in Washington, DC.

However, there are several other factors which limit the likely character and density of development at the subject property, which are summarized below:

**National Register of Historic Places:** The Old Post Office and Clock Tower were added to the NRHP in 1973. The building, having been completed in 1899, is considered one of the iconic structures in downtown Washington, DC, and was the first building constructed in the Federal Triangle (see below). At the time of its completion, the clock tower, at 315 feet, was the third highest structure in Washington, DC, behind the Capitol and the Washington Monument. The Clock Tower has become a popular tourist attraction in downtown Washington, and the National Park Service provides tours in which visitors may go to the top of the tower to observe the nearby monuments and government buildings along Pennsylvania Avenue and The Mall. Removal of this building to allow redevelopment of the site would undoubtedly not be permitted.

**Clock Tower Tourism / Department of the Interior:** The General Services Administration has entered into an agreement with the US Department of the Interior to allow continued operation of, and access to, the Clock Tower in the Old Post Office building. The intent of this agreement is to ensure continued public accessibility to the tower, and to assign responsibilities for its maintenance and operation. The agreement was signed in March 2009, and expires October

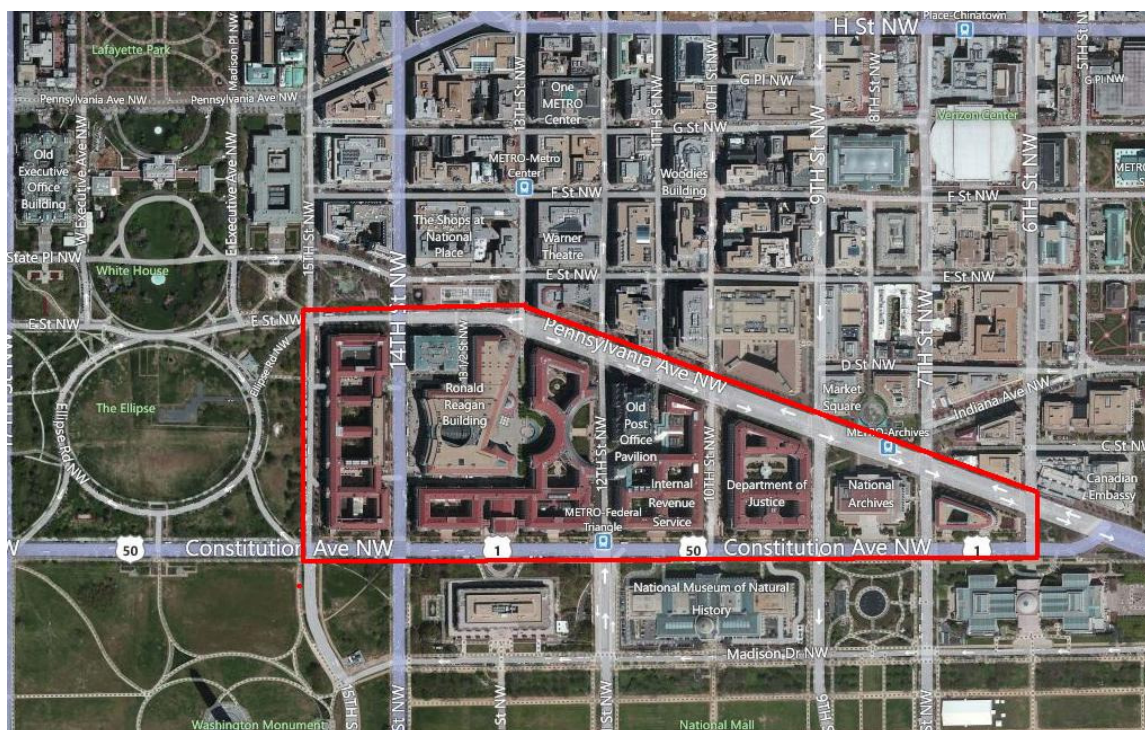
1, 2012, but may be renewed upon agreement of the parties. As part of this appraisal, we have assumed that the agreement will be perpetually renewed, and the areas required for the continued operation of the Clock Tower as a visitation attraction will be unavailable to any entity wishing to renovate or redevelop the Old Post Office building. Any renovation must also provide for public access to the Clock Tower during established visitation hours.

**Preservation Guidelines, Old Post Office & Annex:** For purposes of this appraisal, we have reviewed the preservation guidelines affecting any renovation of the Old Post Office building, as described in the Request for Proposals, Redevelopment of the Old Post Office, issued March 24, 2011 by the GSA. Those guidelines establish various preservation zones on the exterior and interior of the building, with varying levels of restriction on the impact of any redevelopment. The guidelines establish (1) Restoration zones, which consist of the most architecturally important features, and which must be maintained or restored in terms of materials, quality, and appearance, in a manner consistent with their original condition; (2) Rehabilitation zones, which are less important but may contain significant features or details which should be retained as part of any redevelopment, and may be changed to allow a more contemporary use as long as the changes do not adversely affect appearance; and (3) Renovation zones, which are not considered historically significant, and may be altered as long as the alterations do not have a negative impact on rehabilitation or restoration zones. Key elements of the guidelines are summarized below:

- The façade and original exterior of the Old Post Office building and clock tower are restoration zones, and must be maintained.
- Exceptions to restrictions on altering the character of the exterior include the Annex (referred to in the guidelines as the Addition), the south loading dock, the northeast ground level entry (used for handicapped access), the kiosk adjacent to the Annex, and the ground level entry on the south side of the building. These areas of the building may be retained and renovated, or may be removed.
- The slate roofing must be maintained, as well as the glass skylight in the center of the roof.
- Original windows and frames must be maintained; interior storm windows may be added.
- Retail space on the ground floor, first floor, and mezzanine level can be renovated and put to a different use, though original 1<sup>st</sup> floor and mezzanine atrium walls and windows must be maintained.
- First floor lobbies must be maintained with original materials.
- The metal skylight framing over the mezzanine must be maintained, and must remain transparent if re-glazed.
- Some of the original first floor deck was removed in 1979 to allow light to penetrate to the ground floor retail area; some of this floor area could be rebuilt.

- The corridors surrounding the atrium on each floor have been identified as rehabilitation zones, and the original finishes are considered to be significant. The corridors must be maintained, but they may change use. Ornamental plaster must be retained and restored, and new openings in the interior corridor may be considered. A key factor, however, is that covering the openings between the corridors and the atrium with glass is permitted. This has already been done in parts of the 2<sup>nd</sup>, 3<sup>rd</sup>, and 8<sup>th</sup> floors.
- Corner office suites in the fifth floor include the original Postmaster General's suite in the southeast corner, which is considered to be a restoration area. The other three corner offices on this floor will either be rehabilitation areas, or restoration areas, and will be maintained.
- The existing decorative metal elevator enclosures and stairwells must be maintained.
- Other significant details, such as spiral staircases, mailbox drops, and fuse boxes are considered original and must be maintained.
- The Annex (Addition) is not considered significant. According to the guidelines, it may be renovated, removed, or replaced.

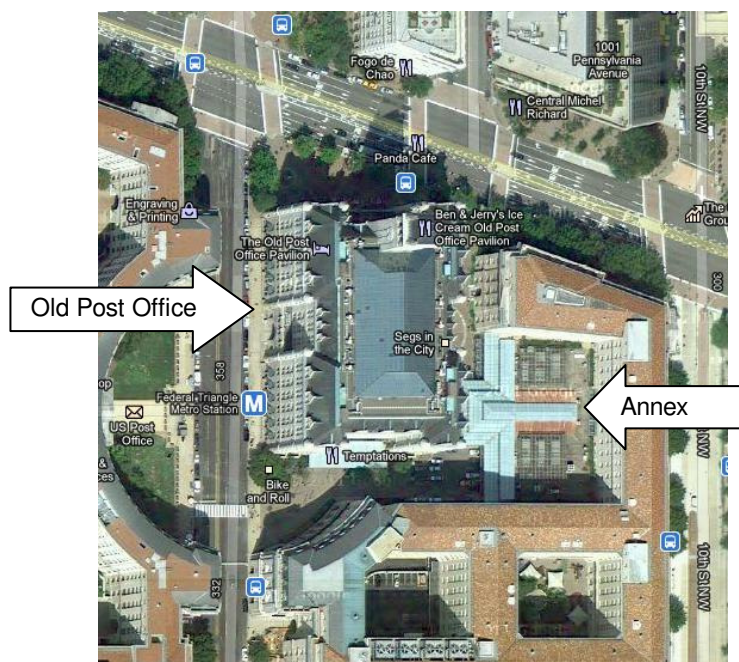
**Federal Triangle:** The subject property is within an area known as the Federal Triangle, bounded by 15<sup>th</sup> Street, NW on the west, Pennsylvania Avenue and E Street, NW on the north, Constitution Avenue on the south, and 6<sup>th</sup> Street on the east.



**FEDERAL TRIANGLE**

The Federal Triangle is a complex of buildings originally constructed in the 1930s to house some of the original departments of the United States government. Development of the area had its genesis in 1925 and 1926, with the passage of the Public Buildings Act, authorizing construction of new buildings in the Federal Triangle, as well as the Supreme Court building, and an extension of the Government Printing Office. [The Federal Triangle area was previously known as “Murder Bay” – a muddy, flood-prone, malaria-ridden, poverty-stricken region lacking in roads, sewer system, running water and almost exclusively home to numerous brothels and an extensive criminal underclass.”<sup>5</sup>] The Old Post Office building already existed at this time, as did an office building owned by the District of Columbia. Seven new buildings were ultimately constructed, including buildings to house the Commerce Department, Internal Revenue Service, Justice Department, National Archives, Federal Trade Commission, and a new building for the Post Office headquarters. The only recent construction in the Federal Triangle is the Annex Building of the subject property, and the Ronald Reagan International Trade Center building.

The subject property includes the original Old Post Office building and the Annex, which are surrounded on the south and east by the IRS building. Opposite the Old Post office on the west side of 12<sup>th</sup> Street is the building constructed for the Post Office headquarters, which now houses the Environmental Protection Agency.



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<sup>5</sup> Wikipedia - [http://en.wikipedia.org/wiki/Federal\\_Triangle](http://en.wikipedia.org/wiki/Federal_Triangle)

As noted previously, and shown in the aerial photo above, the Old Post Office building is a free standing structure at the southeast corner of Pennsylvania Avenue and 12<sup>th</sup> Streets, NW, while the Annex is located within a courtyard formed by the Old Post Office and IRS buildings. It is connected to the IRS building on three sides, and is accessible by vehicles from the original C Street right of way from the west off of 12<sup>th</sup> Street, and by pedestrians from an open plaza along the original 11<sup>th</sup> Street right of way from the north off of Pennsylvania Avenue.

Building heights vary in the immediate vicinity, with the Old Post Office being the highest; the clock tower rises over 300 feet, and the Old Post Office building is nine stories, however the first floor is approximately five feet above street grade and has a floor to floor height of about 30 feet. Thus, the Old Post Office, exclusive of the clock tower, is the equivalent of a 10 to 11 story building. The IRS buildings, adjacent to the Old Post Office and Annex, have six floors along 12<sup>th</sup> Street, Pennsylvania Avenue and 10<sup>th</sup> Street, and seven floors in the interior. However, it appears that the six levels fronting the surrounding streets have higher than normal story heights, and are generally equivalent to a seven story building.

It is our opinion that any new construction which may take place on the Annex site would be required to maintain a high level of consistency with the surrounding buildings in the Federal Triangle, especially the Old Post Office and the IRS building. The Old Post Office rises nine to ten stories in effect, whereas the IRS building rises about seven stories in effect. It is our opinion, considering that the Annex site is technically a part of the IRS property, that the IRS building heights would exert more control over new development on the Annex site, and we therefore estimate that an eight story building would be the maximum permissible on this site. This would result in a gradual change from the ten or eleven story height of the Old Post Office to the seven story height of the IRS building.

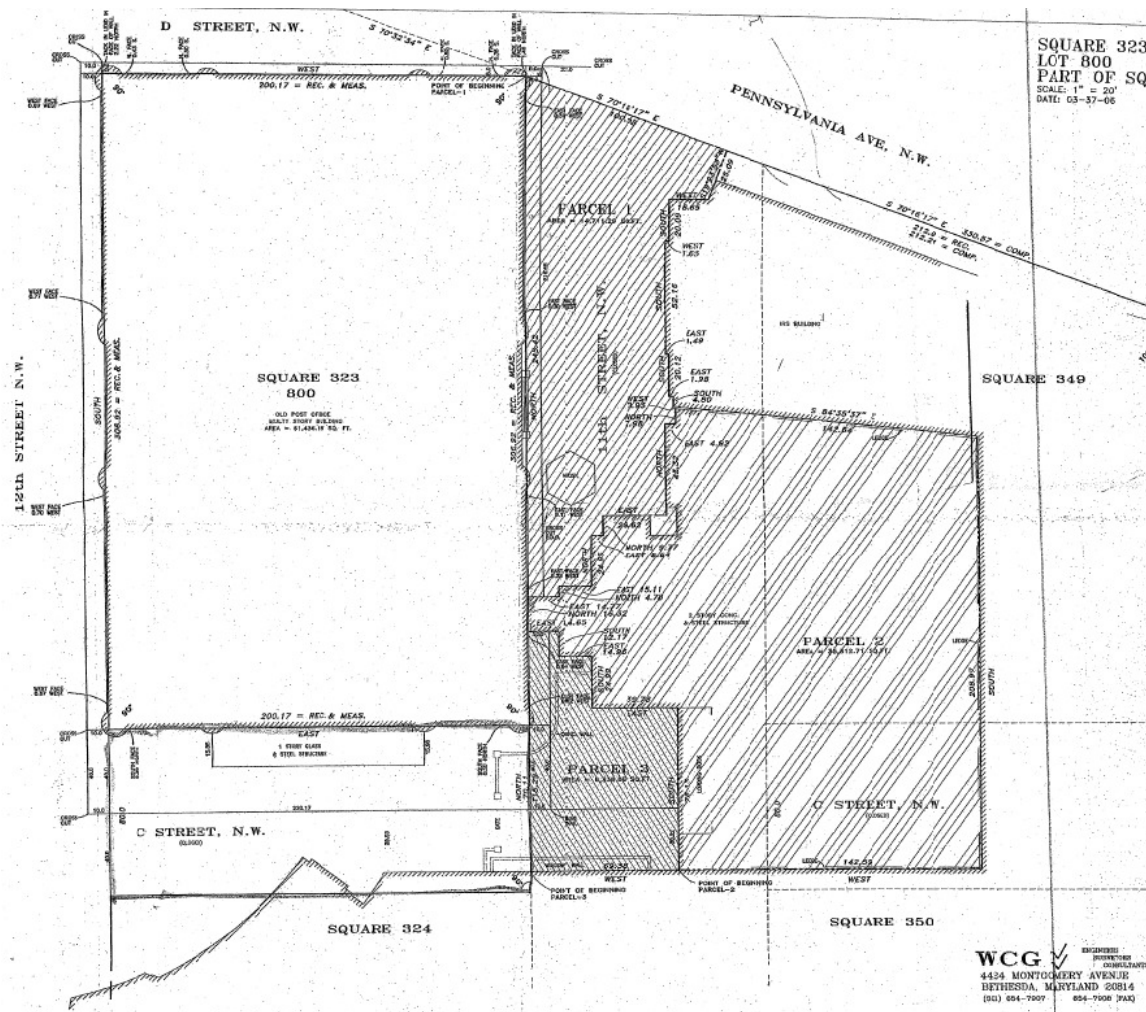
**Other Development Restrictions:** Other factors which must be taken into account, in regard to potential new development on the Annex site include:

- The prohibition on alteration of the façade of the Old Post Office building dictates that any new structure may not connect to the Old Post Office. The existing Annex building has a temporary glass structure which allows direct passage from the first floor of the Old Post Office into the Annex.
- It is our understanding that GSA regulations require a 50-foot buffer between any new construction and the adjacent IRS buildings. However, we have been informed by a representative of the GSA that it is possible that this restriction could be modified based on the inclusion of protective design features in a new building, such as blast-proof walls.



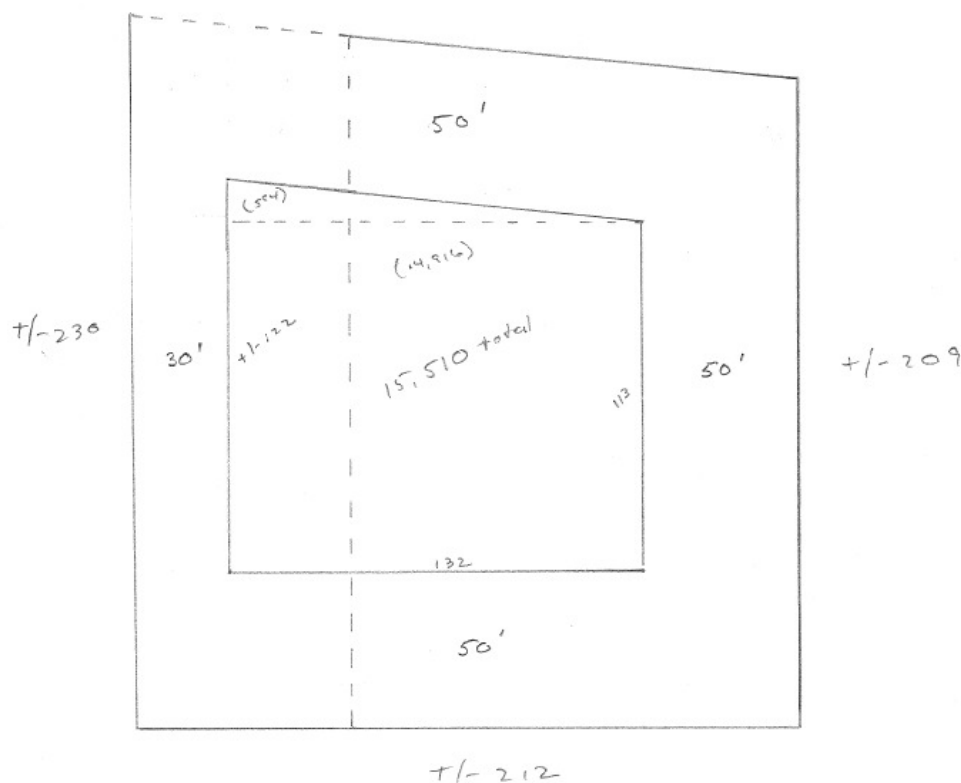
As such, it appears that any new structure on the Annex site must be a free standing building, though we assume that the existing basement level could be maintained.

**Implications for the Annex Site:** Based on the restrictions noted above, we have estimated the area which could serve as a footprint for new construction on the Annex Site, based on measurements shown on a parcel plan provided to us by GSA, shown below. The area shown as Parcel 2 represents the existing footprint of the Annex Building. Parcel 1 is the pedestrian plaza leading south from Pennsylvania Avenue along the original 11<sup>th</sup> Street, and Parcel 3 is the loading and parking area accessible via the original C Street from 12<sup>th</sup> Street to the west. The area identified as Square 323 Lot 800 is the Old Post Office building, which covers its entire site.



The potential building envelope in which the Annex currently sits measures approximately 212 feet deep east to west, between the east wall of the Old Post Office and the west wall of the

IRS courtyard. At its western end, it is approximately 209 feet north to south, inside the walls of the IRS courtyard. The north line of the envelope angles northward from east to west, so that the distance along the east side of the envelope, from north to south, is estimated at 230 feet. Allowing a 50 foot setback from the IRS buildings on the north, east, and south sides, and a 30 foot setback from the Old Post Office building on the west side, would result in a building footprint estimated at 15,510 s.f., as shown below:



However, if the IRS setbacks were reduced to 30 feet, then the potential building footprint would increase to 23,850 square feet. Considering the character of development in the Federal Triangle area, it is our opinion that setbacks of less than 30 feet would be have difficulty gaining approval. It would also appear that setbacks of 30 to 50 feet would permit for adequate pedestrian plazas, and would also allow an adequate amount of natural light to all surrounding buildings.

The resulting building would have natural light to all four sides, exposure (though not frontage) along Pennsylvania Avenue, pedestrian access from Pennsylvania Avenue, and vehicular access from 12<sup>th</sup> Street via the C Street right of way. A floor plate size of 15,000 to 24,000 square feet is smaller than ideal for new construction, but is not uncommon in downtown Washington, DC.



One additional factor to be considered, in regard to the Annex Site, is that the architecture of the Annex is decidedly inconsistent with the surrounding buildings in the Federal Triangle. Removal of this building, with an appropriate redevelopment of the site may be seen by local and federal planning officials as an improvement to the architectural profile of the area.

## **ANALYSIS OF PHYSICALLY POSSIBLE USES**

**Old Post Office Building:** As noted above, the Old Post Office building is considered a historically significant structure, and cannot be removed. The exterior of the building may not be changed, and the most significant elements of the interior must remain as well, particularly the atrium, and the corridors surrounding the Atrium.

**Ground Floor:** This level currently houses the food court and a number of retail spaces, as well as open seating area for customers, the entrance for tours of the Clock Tower, and the massive foundation of the clock tower. There is also a substantial amount of mechanical space on this level. There is a direct entrance into the ground floor on the south side of the building. This has a ramp and serves as a handicapped accessible entry to the building. The primary physical limitation on this space is its below grade position and lack of windows. According to our analysis, as summarized in the Property Description and Income Approach, the ground floor includes 8,916 s.f. of food court space, 4,497 square feet of existing retail space, plus approximately 2,740 s.f. in the lower level of Unit 101, a bi-level restaurant space which is now vacant. The total usable space available on this floor, therefore, is estimated at 16,153 square feet. This floor includes a significant amount of open floor area, but because it is below grade, and because it is used only for access to the food court, retail spaces, clock tower, and mechanical space, it has not been included in our measurements.

**First Floor:** The first floor houses the entrances to the Old Post Office on the north, east, and west sides of the building. Lobbies on the north, east, and west sides must be maintained. This floor houses one existing office space of 5,492 s.f. on the west side of the building (NEA), two vacant bi-level retail/restaurant spaces totaling 10,884 s.f. at the front corners of the building on Pennsylvania Avenue, a variety of retail spaces totaling 6,995 s.f. beneath and adjacent to the atrium (some of which are currently vacant), approximately 3,553 s.f. in the upper level of Unit 101 (mentioned above) and a meeting room used by GSA on the east side (estimated at 1,530 s.f.), not currently designated as part of the net rentable area. All of this space would be considered usable as part of a renovation of the building, and the total usable area on this floor is estimated at 28,454 square feet. GSA has not provided us with any measurement of the circulation and core area on this floor, which would normally contribute to rentable area. Based on floor plans provided to us, we have estimated the circulation area at approximately 16,000 square feet, and core areas (e.g. restrooms and restroom access corridor, etc.), at an additional 1,000 square feet.

**Mezzanine:** The primary space on the mezzanine is a vacant former restaurant space totaling 11,019 square feet, which was excluded from the valuation of the property on an as-is basis in Part 1 of this report. This space is currently used as a lounge for employees of the Old Post Office building (security, maintenance, etc.), and part of the space has been subdivided for

use as the security office. This space is accessible via a stairwell from the first floor retail court, or by an elevator located near the southwest corner of the floor. There is a circulation corridor on this floor, however its measurement was not provided by the GSA; we have estimated this area at 2,500 square feet. The mezzanine also includes the management office, which we have assumed would remain in this use, and would not contribute to usable area as part of a renovation. [Note: the bi-level Pennsylvania Avenue restaurant spaces described as part of the first floor above, have upper level space on the mezzanine level; however, these spaces do not appear to be accessible from within the mezzanine, and have been allocated to the first floor, not to the mezzanine.]

Floors 2 through 8: These are the upper floors of the building currently used for office space by the GSA. The primary physical limitation to these floors is the presence of the atrium, and the corridors which surround the atrium on all sides. Due to the large size of the atrium, and the width of the corridors (14 to 15 feet), the depth of the office space between the corridors and the exterior walls ranges from about 18 feet to 33 feet in most instances, but can be as large as 42 feet in some of the corner spaces. The usable area on floors 2 through 8, as mentioned previously in this report, is 139,825 square feet. The corridors contribute an additional 63,841 square feet, and the core areas (restrooms, etc.) add 7,137 square feet. If all of this space is included, the rentable area of floors 2 through 8 would be 210,803 square feet.

Ninth Floor: This is the uppermost floor of the building, currently used primarily for storage or back office operations. A primary limitation on the use of the floor is access, with only one small elevator currently serving the floor, though improved service could potentially be provided as part of a renovation. Other limitations on the use of this floor include the substantially narrower areas available for occupancy between the corridors and exterior walls due to the sloping roof line, and the lack of windows. According to the floor plan provided to us by GSA, this floor has 7,050 s.f. of usable area (mostly storage and windowless back office), of which 3,717 is controlled by the National Park Service for access to the Clock Tower. Net of the Park Service space, there is only 3,333 s.f. of usable area on this floor. There is also 3,571 s.f. of corridor area, and 8,941 s.f. of area designated as "Core", which is mostly in the corners or perimeters of the floor, and we have assumed to be unusable due to minimal ceiling height.

Other Considerations: The first floor of the building is approximately five feet above grade, which limits the appeal of first floor retail space. The building has no parking, and it would appear unlikely that any parking could be adapted into the existing structure.

Conclusion: While the Old Post Office building has some physical limitations relating to its design, it would appear that the structure is capable of continuing to accommodate office and retail uses. Hotel and residential (multi-family) uses could be accommodated within the existing

structure, but not without substantial renovation. The floor areas in the building available for renovation, as discussed above, are summarized as follows:

<b>Floor</b>	<b>Usable Area \1</b>			<b>Corridors \2</b>	<b>Core \2</b>	<b>Total</b>
	<b>Existing</b>	<b>Added</b>	<b>Total</b>			
Lower Level \3	16,153		16,153			16,153
Floor 1	26,924	1,530	28,454	17,000	825	46,279
Mezzanine		11,019	11,019	2,500		13,519
Floors 2 through 8	139,825		139,825	63,841	7,137	210,803
Total Above Grade	166,749	12,549	179,298	83,341	7,962	270,601
<b>Total</b>	<b>182,902</b>	<b>12,549</b>	<b>195,451</b>	<b>83,341</b>	<b>7,962</b>	<b>286,754</b>
Floor 9 \4	3,333		3,333	3,571		6,904

1/ Existing SF is the amount used in the analysis of the property in Part 1. Added SF is additional usable area identified by appraiser that would be available for a renovation.

2/ Amounts for 1st floor & mezzanine estimated by appraiser; others provided by GSA.

3/ Includes usable food court & retail space only - no common area.

4/ Limited access, storage and windowless office.

Based on the estimated usable area of 195,451 square feet, and the corridors and core space of 91,303 square feet (83,341 + 7,962), the indicated core factor is 46.7%, substantially larger than normal for downtown DC office buildings. A normal core factor would be between 10% and 15%.

**Annex Building:** The Annex building is currently vacant, but was designed and once occupied primarily as retail space. The building has a configuration similar to a retail mall, with perimeter retail spaces surrounding an atrium courtyard. Three of the exterior walls, adjacent to the IRS building, lack any natural light penetration, while the eastern wall, facing the Old Post Office, is glass. The building also has a glass skylight for part of the roof, above the atrium area.

One limitation on the use of this building is that approximately one-third of the space, on the lower level is below grade. On the two upper levels, as noted above, only one wall has exposure for natural light, while there is additional light penetration through the skylight and atrium. This building does have vehicular access via the C Street right of way, with a loading dock on the lower level. It has no parking at the present time, but it is considered physically possible that the lower level, which is below grade, could be adapted for use as a parking garage.

It appears that the Annex building could physically support retail use, since that is consistent with the building's original design. Other uses could potentially be accommodated within the

building, such as office use, parking, apartments, or hotel use, however these alternative uses would require substantial renovation of the building.

As discussed under the property description, the Annex Building is reported to total 100,735 square feet of gross building area (inclusive of a 2,500 s.f. loading dock), and a net rentable area for retail leasing purposes of 50,277 square feet.

## **ANALYSIS OF FINANCIALLY FEASIBLE USES**

As noted previously, the analysis of financial feasibility considers the various use alternatives identified under the prior analysis of legal permissibility and physical possibility.

According to those analyses, the Old Post Office building may not legally be removed for redevelopment of the site; the existing office and retail use could be continued, or it could be substantially renovated to improve the performance of the current uses or to allow an alternative use such as hotel, multi-family, meetings and conferences, or museum space. It does not appear that parking could be adapted into this building, however.

**Summary of Alternative Uses for the Old Post Office:** Market analyses have already been presented in this report for the major use alternatives for the subject property, including office, retail, hotel, conferences and meetings, and multi-family apartments. The reader should note that, for each of these uses, we have assumed that the building will be taken over, renovated, and subsequently leased to a private operator. As such, we have assumed that the onerous security screenings which currently occur, including the use of scanners and metal detectors, occur will not be required under private operation. Rather, we have assumed that security measures would be typical for each type of use considered as part of this HBU analysis. This would make the building more accessible to potential retail patrons, potential hotel guests, and potential apartment occupants. The primary use alternatives, as well as additional potential uses such as parking and museum space, have been summarized below:

**Office Use:** Office space is generally considered to be the most common use in downtown Washington, DC, and is also the most common use in the vicinity of the subject site. All of the surrounding properties are engaged in office use, and all of the surrounding buildings located to the south of Pennsylvania Avenue are owned and occupied by agencies of the United States government. Buildings located to the north of Pennsylvania Avenue frequently exhibit retail use on the first floor, with office use on upper floors. Occupants represent a variety of private businesses, associations, and government agencies.

As discussed in the Office Market Analysis, downtown Washington supports nearly 128 million square feet of office space, one of the largest and strongest CBD office markets in the United States. Rental rates are generally high, with asking rates averaging over \$50 per s.f. FS throughout downtown. The subject is located in the East End submarket, which is one of the stronger segments of the downtown office market in DC, with almost 47 million square feet of space, a vacancy rate of 9.0%, and an average asking rent of nearly \$55.00 per s.f., FS. It is typical in downtown Washington for office space to be provided in multi-story buildings, ranging up to about 13 floors.

In the Office Market Analysis, we presented specific information about rental rates at six historic renovated office buildings, which exhibited asking rates ranging from about \$45.00 per s.f. full service, to a high of about \$54.00 per s.f., NNN. In our opinion, the most comparable properties to the subject, assuming a major renovation, would be the Homer Building and the Evening Star building, which exhibited rates ranging from \$44.00 to \$54.00 per s.f., NNN. It is our opinion that rental rates at the subject, if renovated, would most likely be at the low end of that range, due primarily to the poor configuration of office space resulting from the retention of the atrium and the corridors. As such, we estimate market rent for the subject for purposes of this HBU analysis, assuming renovation, at \$45.00 per s.f., NNN.

The reader should note that, in the valuation of the property using the Income Approach in Part 1 of this report, market rent was estimated on a full service basis, as opposed to the NNN basis which was used for this analysis of Highest and Best Use. As noted in the Office Market Analysis, office space in downtown Washington may be leased on either a full service or NNN basis. For the analysis in Part 1, most of the rent comparables were leased on a full service basis, so that was determined to be the most accurate method for estimated market rent in that instance. For this Highest and Best Use analysis in Part 2, three of the six rent comparables were based on NNN terms, while three were based on full service. The two most reliable rent comparables, The Homer Building and the Evening Star Building, are rented predominantly on a NNN basis, and therefore this was determined to be the most accurate methodology to be employed for this analysis. Under a NNN lease, rents are typically lower than they would be under a full service lease for similar space, but the tenants reimburse the landlord for all operating expenses on an annual basis.

Retail Use: Retail is also a common use in downtown Washington, with a variety of shops, stores, restaurants, and entertainment venues serving daytime employees, tourists, and those seeking dining and entertainment opportunities at night. Retail rents are generally very high, and may range up to \$75 or \$80 per s.f., NNN, for the best locations. Retail rents are nearly always structured on a NNN basis, and that basis has been utilized for this analysis.

The subject offers a combination of food court space on the lower level interior, retail spaces on the lower level and first floor, and two corner restaurant spaces along Pennsylvania Avenue. At the present time, retail and food court rental rates at the subject are relatively low, which in part reflects the uncertainty about the future of the building due to the pending redevelopment. However, the lower rental rates are also reflective of the lack of direct exposure to the street, the secondary location of the property for retail activity south of Pennsylvania Avenue, and the restricted access to the interior of the building due to guards and metal detectors protecting the safety of government employees.

In Part 1 of this report we estimated retail rents at \$35.00 per s.f., NNN for the restaurant and interior retail spaces, and \$35.00 per s.f. for the food court spaces. These rent conclusions were based on the as-is condition of the property, and assumed continued occupancy of the site by the federal government. Most importantly for the retail space, continued occupancy by the federal government would indicate that retail patrons would continue to require security screening and the entrances, including metal detectors and scanners. This necessity undoubtedly deters entry by some customers, particularly area workers, and makes the retail space more difficult to lease.

For our Part 2 HBU analysis, we have assumed that the building will be taken over by a private developer, will be fully renovated, and entry will not be subject to screening of retail and restaurant patrons. This should have a substantial positive impact on the volume of retail and restaurant patronage in the building, and should result in increased potential rents. Without the necessity of screening, the food court would be an accessible and attractive lunch venue for tourists and nearby office workers. The Pennsylvania Avenue restaurant spaces would not have direct access from the street, but would have access from exterior doors located on either side of the recessed entry portico, at the top of the stairs in front of the building.

Based on the Retail Market Analysis presented earlier in this report, and on information presented in the Income Approach regarding retail leasing activity, it is our opinion that food court spaces in the subject building, assuming that it were renovated and that access was not restricted, could rent for approximately \$60 per s.f., NNN. This is believed to be at the high end of rates being achieved at the food court in the Reagan ITC building, and below rates being achieved at the National Press Club and International Square office buildings, which have superior locations.

We further estimate that the corner restaurant spaces along Pennsylvania Avenue could rent for \$45.00 per s.f., NNN; these spaces would not enjoy improved marketability to the same extent as the food court following a renovation, since they would still have indirect visibility and access from the street. We further estimate that interior retail spaces could rent for \$35.00 per s.f., NNN, which recognizes their continued limitation in regard to street visibility and access.

One additional limitation on retail use is that it is traditionally undertaken on the first level of high rise buildings, and is uncommon on upper floors. This suggests that retail use would be feasible only as a ground floor and first floor component in the Old Post Office, with another complementary use occupying the upper floors.

Hotel Use: As described in the Hotel Market Analysis, hotels are a common use in Washington, DC, with an estimated 116 hotel properties and nearly 28,000 rooms. Due to the depth of demand from a wide variety of sources, including national and international



government related travel, meetings and conferences, business travel, tourism, and individual leisure travel, demand for hotels is strong, with occupancies exceeding 75% thus far in 2011, at an average ADR of just over \$200 per night throughout DC.

To refine our analysis, we examined the performance of a number of historic hotels in downtown Washington, in the vicinity of the subject. These hotels have advertised nightly “rack” rates ranging from \$300 to \$650, averaging in the \$425 to \$525 range. The actual reported ADRs for these hotels, according to Smith Travel Research, was about \$275 per night in 2010, and is nearly \$285 per night thus far in 2011, with average occupancy around 77%.

For the subject, assuming that it was a fully renovated four or five star hotel, with an amenity package comparable to the hotels profiled in the market analysis, we have estimated that the property could generate an average daily rate of \$325 per room, with an average annual occupancy rate of 75%.

Meetings and Conferences: The characteristics of the meetings and conference market in Washington, DC were discussed earlier in this report, as part of the Hotel Market Analysis. Washington has a vibrant meeting and conference market due to the presence of the United States government, and the substantial office market in downtown Washington. Most demand for conference space is satisfied by the major conferencing venues such as the Washington Convention Center and the Ronald Reagan ITC building, as well as the meeting spaces included in the area's substantial hotel inventory. However, there is also a small component of the office market in downtown Washington which includes conferencing facilities as a building amenity.

Considering the location of the subject property, directly on Pennsylvania Avenue, surrounded by government and private offices, it is highly likely that any redevelopment of the property based on hotel use would include a sizeable amount of meeting and banquet space. Considering the architectural characteristics of the hotel, this space would most likely be quite attractive. However, considering the myriad meetings which take place on a daily basis in and among government agencies, even continued use of the property as an office building could result in sufficient demand that a meeting space could be a feasible, though small, component of the project. It is assumed that meeting space would command the same rent as office space at the subject site.

Multi-Family Residential Use: Multi-family use represents a small component of land use in downtown Washington, DC, primarily because multi-family rents (and the present value of for-sale condominium projects, by extension) tend to be lower than office rents. Nevertheless, the apartment market in the downtown area is strong, due to the large numbers of downtown office workers who would prefer to live near the workplace. The District of Columbia government

encourages development of residential space in and near the downtown area. According to data provided by ReisReports, apartment vacancies in the downtown apartment submarket are below 5%, though average rents are typically below \$3.00 per s.f. per month.

In order to consider the likely performance of new apartment units in the Old Post Office building as though renovated, we have examined rents at several recently developed apartment buildings in the downtown area, located between Pennsylvania and Massachusetts Avenues, NW. These buildings exhibit rents which range from about \$2.75 to about \$4.11 per square foot. Considering the location of the subject, and assuming that the building would be fully renovated and would include a set of competitive amenities, we estimate that the building would include a combination of studio, one bedroom, and two bedroom units averaging approximately 800 square feet, with an average rent estimated at \$3.50 per s.f., or \$2,800 per month.

Museum Use: The subject property has a unique location in Downtown Washington, DC in the Federal Triangle, in close proximity to a large number of United States monuments, as well as a large number of Smithsonian Institution Museums. These include such monuments along Pennsylvania Avenue as Pershing Park, Freedom Plaza, and the US Navy Memorial; the private Newseum at Pennsylvania Avenue and 6<sup>th</sup> Street, and such Smithsonian museums along Constitution Avenue as the Museum of American History, the Museum of Natural History, the National Sculpture Gallery, The National Gallery of Art, and the National Air and Space Museum. Furthermore, the subject itself is a tourist visitation site, due to the presence of the Clock Tower.

It is unlikely that the entire building, or even a large portion of the building, would be converted for use as a museum. However, there are a number of museums that are privately owned in downtown Washington, and a number of museums run by US government departments, such as:

- The Newseum, mentioned above, dedicated to the history of the press in the United States, which occupies its own site at Pennsylvania Avenue and 6<sup>th</sup> Street, NW.
- The International Spy Museum, which occupies approximately 54,000 s.f. of space in an office oriented building located at 800 F Street, NW. This space was leased in 2002, at the reported rate of \$45.00 per s.f. plus electric.
- The National Geographic Society, which has exhibit space on the first floor of its office building at 1145 17<sup>th</sup> Street, NW.
- The Laogai Museum is dedicated to revealing the plight of individuals in China's Laogai forced labor prison camp system. This museum occupies 5,400 s.f. of leased space in a small office building at 2000 S Street, NW.

- A variety of other small, privately funded museums in or near downtown Washington, including such organizations as the National Museum of Jewish Military History, Fonda del Sol, The Textile Museum, and private art collections such as the Phillips Collection and the Kreeger museum.
- There are also a number of small museums sponsored by US government departments nearby, such as the State Department's National Museum of American Diplomacy, the Interior Department's Interior Museum (closed for renovations), The US Mint Kiosk and Sales Counter, the US Navy Museum, and several other regional museums such as the National Medical Museum in Silver Spring, the National Museum of the US Army planned in Fort Belvoir, VA, and the National Museum of the Marine Corps in Quantico, VA.

Considering the central location of the Old Post Office building, and the critical mass of tourism in and around the site, it is our opinion that this would be an appropriate location for smaller privately owned or government museums. It may also be possible that there are a number of associations with an existing office presence in downtown Washington which would appreciate the opportunity to lease space that is more open to the public, giving them an opportunity to establish exhibits for the purpose of public education or raising the profile of particular issues. It is unlikely, however, that a gallery with a highly valuable art collection would be interested in a location such as this.

It is our opinion that uses of this type would be appropriate for the first floor of the Old Post Office building, or for the upper two floors of the Annex building. One caveat to this analysis is that the volume of demand for this type of space would be difficult if not impossible to gauge, and it would also require that the user be willing to pay rent that is equivalent to an office rent for comparable space.

Parking: Due to the mass of high density development in downtown Washington, there is substantial demand for automobile parking spaces. Most parking is provided in below grade parking garages underneath high rise buildings, or sometimes in surface lots placed on undeveloped parcels. In the Income Approach, we presented information regarding monthly parking fees, indicating that garage rents range from \$260 to \$300 per month. Considering the subject's location, we estimate that it could generate parking fees at the top of the range, or \$300 per month.

It has been our experience that, in garages which are operated by a professional parking company, that garages staffed by attendants can typically "stack" cars in the garage, and at peak times can park more cars than the actual number of striped spaces. Combined with the added fees for hourly and daily stays, attended garages typically generate sufficient added income to cover operating costs such as salaries, management fees, liability insurance, and

cleaning. As a result, the net income returned to building owners tends to be roughly equivalent to the applicable monthly rent times the number of striped spaces; in this case \$300 per month, or \$3,600 per year. Considering a typical ratio of 3 spaces per 1,000 square feet, this would indicate the potential for parking garage space to generate \$10,800 per year for 1,000 square feet, or \$10.80 per square foot. Since the operating costs would already be covered by the parking management company, the only expenses that would remain to be covered by the landlord would be real estate taxes and building insurance. It is clear, based on the comparatively low level of income production per square foot, that parking use would only be appropriate in below grade spaces.

Conclusion: The estimated value of the subject buildings, including both the Old Post Office and the Annex, based on continuation of the present uses, has been analyzed in Part 1 of this report, and indicated \$58,000,000 for the Old Post Office and \$9,000,000 for the Annex. These uses are considered to be legally permissible, physically possible, and appear to be financially feasible, though the values are lower than for the sites, if vacant.

The remainder of this portion of the Financial Feasibility analysis will focus on alternative uses for the subject property, to determine whether they are financially feasible, and to serve as the basis of an analysis of maximal profitability. The primary uses to be considered in this analysis, based on the foregoing information, are office, hotel, and multi-family use. Retail use would most likely be limited to the ground floor and first floor of the Old Post Office building, and other alternative uses, such as meeting and conference space, museum space, and parking, will be considered as possible components of the primary uses.

### **Feasibility Analysis – Renovated Office Use – Old Post Office**

#### **Space Configuration**

For analytical purposes, regarding the potential renovation of the property by a private developer for continued office use, we have made the following judgments in regard to the location of uses and square footages in the building:

Ground Floor: We have assumed that all of the usable space on the ground floor would continue to be used as food court (8,916 s.f.) and retail space (7,237 s.f., which includes the lower level of Unit 101), totaling 16,153 square feet. As mentioned above, food court rents have been estimated at \$60.00 per s.f., NNN, and rents for retail spaces on this level have been estimated at \$35.00 per s.f., NNN. The NNN expense basis is typical for retail rents, and under this methodology all annual operating expenses are recovered from the tenant.

First Floor: This floor totals 28,454 square feet of usable area, and is currently used primarily for retail and restaurant space, though there is one office space leased to NEA. It is our opinion that the following uses would generate the highest future occupancy rates and rents for this space:

- The two front corner restaurant spaces, which are exposed to Pennsylvania Avenue, are assumed to remain as restaurants, with rents estimated at \$45.00 per s.f., NNN. These spaces total 10,884 square feet. Restaurant leases are considered to be part of the retail market, and therefore are typically structured on a NNN basis.
- Since estimated market rents for interior retail spaces are lower than estimated market rents for renovated above grade office space, we have assumed that all of the space on this floor will be converted to office use. Especially appropriate for this level would be users with a public access orientation, such as small private museums, museum space for long established United States government departments, or associations interested in making exhibit or reception space available to the public for educational or promotional purposes. This space could also potentially house a conferencing facility, which would need to be leased by an operator that would provide conference space and associated services for small private or government meetings. This component of the first floor space would include the existing NEA space, existing retail space, the upper level of Unit 101, and the estimated 1,530 s.f. space currently used for GSA meetings. Assuming that the tenants on this level would have a public orientation, we would assume that the corridor spaces would remain open. The total usable space in this category would be 17,570 square feet, and we estimate it's market rent, assuming renovation, at \$45.00 per s.f., NNN. As mentioned previously in this analysis, we have estimated market rents for this Part 2 HBU analysis on a NNN basis, which is consistent with the most reliable market rent comparables. Under this expense structure, all office tenants would reimburse the landlord for annual operating expenses.

Mezzanine: This level currently houses a space of 11,019 square feet which is vacant, along with adjoining corridor area estimated at 2,500 square feet. This space is not appropriate for retail or restaurant use, in our opinion, due to limited visibility and accessibility. It is our opinion that the best use of this level would be for office or meeting space, and that the corridor could be combined into the existing usable area, resulting in a contiguous space of 13,519 square feet. Market rent for this space would be \$40.00 per s.f., NNN, reflecting a discount for the unusual access arrangements for this floor.

Second through Eighth Floors: These floors are currently utilized for office space, and would be expected to remain in this use. The usable area reported for these floors is 139,825 square feet, and these spaces are served by circular corridors surrounding the atrium totaling 63,841 square feet. We note that on Floors 3 (Dept. of Education) and 8 (NEA and IMLS), portions of

the corridors have been converted to office use, and are already included in usable areas; the complete corridors on each floor total about 10,040 s.f., which would indicate a total corridor area of about 70,280 were it not for these exceptions. In the case of a full floor tenant, the entire corridor could conceivably be included in the usable area. On other floors, large tenants could incorporate sections of the corridor into enclosed usable areas, as long as the enclosures did not interfere with other tenants' access to the elevator lobbies; this would primarily be appropriate for spaces at the north and south ends, or corners of the building. For purposes of this appraisal, we have assumed that about 30,000 square feet of the remaining corridor space could ultimately be included in usable areas for larger office tenants. This would result in a total estimated usable office area for these floors of 169,825 square feet.

Ninth Floor: This floor has limited accessibility and no windows. There is a small amount of usable area on this floor (7,050 s.f.) which could be used for storage or windowless office space. As part of a major renovation it might be possible to improve elevator service to this floor, which could open up the usable area for office space. However, it appears that the amount of space which could potentially be used on this floor is so small, that the value of completing elevator service, mechanical services, and interior finishes may be questionable. We have not included any of this space in our analysis.

Conclusion: Based on the analyses and assumptions outlined above, total usable area for the building is estimated at 227,951. In order to estimate a market oriented net rentable area to be used for analysis purposes, we have increased the usable area of the office spaces indicated above by a core factor of 1.12, representing the typical ratio between usable and rentable building area in this market. The building areas of the Old Post Office building for renovation for office use, therefore, are estimated as follows:

<b>USABLE AREA</b>					
<b>Floor</b>	<b>Food Court</b>	<b>Retail</b>	<b>Restaurant</b>	<b>Office</b>	<b>Total</b>
Ground	8,916	7,237		-	16,153
Floor 1			10,884	17,570	28,454
Mezzanine				13,519	13,519
Floors 2 through 8				169,825	169,825
<b>Total</b>	<b>8,916</b>	<b>7,237</b>	<b>10,884</b>	<b>200,914</b>	<b>227,951</b>

<b>RENTABLE AREA</b>					
<b>Floor</b>	<b>Food Court</b>	<b>Retail</b>	<b>Restaurant</b>	<b>Office</b>	<b>Total</b>
Ground	8,916	7,237		-	16,153
Floor 1			10,884	19,678	30,562
Mezzanine				15,141	15,141
Floors 2 through 8				190,204	190,204
<b>Total</b>	<b>8,916</b>	<b>7,237</b>	<b>10,884</b>	<b>225,024</b>	<b>252,061</b>

**Stabilized Operating Estimate**

Gross Rents: We have estimated NNN revenues for the property, assuming a complete, high quality renovation, based on the market rent estimates noted above, applied to the estimated rentable areas.

Expense Recoveries: Since all market rent estimates are based on NNN expense terms, we have assumed that all expenses may be recovered from the landlord. This is typical for NNN leases for both retail and office space. As noted in the following table, we have included a line item for expense recoveries, and an amount equal to the annual operating expenses, on a per square foot basis, is applied against the entire estimated rentable area for the subject building, assuming completion of the renovation.

Vacancy and Collection Losses: Office vacancies in downtown Washington are currently reported at 9.5%, and vacancies in the East End are currently at 9.0%, according to CoStar. The renovated office rent comparables utilized for this analysis ranged from 9.1% vacancy to 0% vacancy. For the subject, we have estimated vacancies at 6.0%, plus 1.0% for collection losses, for a total of 7.0%.

Operating Expenses: For this HBU analysis, we have estimated operating expenses for the subject assuming completion of a major renovation, based on the following expense comparables:

<b><u>Comp</u></b>	<b><u>Comp 1</u></b>	<b><u>Comp 2</u></b>	<b><u>Comp 3</u></b>	<b><u>Comp 4</u></b>
Size (SF)	350,000	475,000	275,000	150,000
Year Built	1980s	1992	2005	1993
Expense Year	2010	2009	Budg 2011	2010
Insurance	\$0.23	\$0.35	\$0.18	\$0.28
Repairs & Maintenance	\$2.77	\$2.18	\$1.45	\$3.41
Management	\$1.72	\$1.47	\$1.23	\$0.77
As % of EGI	2.5%	2.0%	NA	3.0%
Janitorial/Cleaning \1	\$2.57	\$3.53	\$3.51	\$3.96
Utilities	\$3.32	\$2.97	\$3.95	\$4.06
General & Administrative	<u>\$1.27</u>	<u>\$1.33</u>	<u>\$0.79</u>	<u>\$0.34</u>
Total (Excluding RET)	\$11.88	\$11.83	\$11.11	\$12.82

1\ Includes contract services

For estimated real estate taxes, we have considered the current and proposed 2012 assessments for five of the renovated office rent comparables, which are summarized in the following table:

	2011 Assessment				2011 RET	2012 BID	Total Tax	Tax/SF
	RSF	Land	Impr's	Total				
The Homer Building	421,084	\$99,242,690	\$77,234,310	\$176,477,000	\$3,258,825	\$64,425	\$3,323,249	\$7.89
The Evening Star Building	219,627	\$59,718,400	\$39,856,600	\$99,575,000	\$1,836,138	\$33,303	\$1,869,441	\$8.51
The Woodie's Building	498,920	\$135,758,700	\$58,652,300	\$194,411,000	\$3,590,604	\$71,871	\$3,662,475	\$7.34
Hamilton Square	246,392	\$77,627,000	\$14,832,200	\$92,459,200	\$1,704,495	\$110,766	\$1,815,261	\$7.37
The Colorado Building	121,701	\$37,318,400	\$1,786,600	\$39,105,000	\$717,443	\$18,239	\$735,682	\$6.04
The Tower Building	124,706	\$24,300,000	\$6,933,950	\$31,233,950	\$571,828	\$17,578	\$589,406	\$4.73

	2012 Assessment				Estimated		Total Tax	Tax/SF
	RSF	Land	Impr's	Total	2012 RET	2012 BID		
The Homer Building	421,084	\$99,242,690	\$111,674,700	\$210,917,390	\$3,895,972	\$64,425	\$3,960,397	\$9.41
The Evening Star Building	219,627	\$59,718,400	\$117,698,820	\$177,417,220	\$3,276,219	\$33,303	\$3,309,522	\$15.07
The Woodie's Building	498,920	\$135,758,700	\$77,169,950	\$212,928,650	\$3,933,180	\$71,871	\$4,005,052	\$8.03
Hamilton Square	246,392	\$77,627,000	\$65,465,320	\$143,092,320	\$2,641,208	\$110,766	\$2,751,974	\$11.17
The Colorado Building	121,701	\$37,318,400	\$9,134,240	\$46,452,640	\$853,374	\$18,239	\$871,613	\$7.16
The Tower Building	124,706	\$24,300,000	\$13,651,360	\$37,951,360	\$696,100	\$17,578	\$713,678	\$5.72

At the present time, the tax levels for the comps range from \$4.73 to \$7.89 per s.f., but assessments are proposed to increase significantly for 2012, which would increase tax burdens to between \$5.72 and \$11.17. Considering the potential value indicated for the subject we have estimated stabilized taxes at \$10.00 per s.f.

The remaining operating expenses have been estimated in a manner consistent with the comparables. Total operating expenses have been estimated at \$23.44 per square foot.

Net Operating Income: Based on the foregoing analysis, NOI has been estimated at \$10,121,823, which equates to \$40.16 per square foot.

### **Direct Capitalization and Indicated Value**

To provide an indication of the potential value of the Old Post Office following a major renovation, we have utilized the direct capitalization method. To select an overall capitalization rate, we have considered recent sales of Class A and B office buildings in downtown, Washington, DC., which are summarized in the following table.

The indicated OARs range from 4.6% to 7.5%, though most are in the range of 5.2% to 6.0%. The sales took place between 3 months and 15 months in the past, and recent investor surveys (see below) indicate that OAR expectations have declined 15 basis points in the past quarter, and 66 basis points in the past year. This suggests that these sales would indicate a lower range of rates today. It is our opinion, that for a property such as the subject, which is analyzed based on market rent, that a rate closer to the upper end of the range is appropriate. This reflects that there is limited "upside" in projected revenues, since the NOI estimate does not reflect the impact of any older leases which have below market rents.



<b>Property</b>	<b>Class</b>	<b>Yr Blt</b>	<b>NRA SF</b>	<b>Date</b>	<b>Price</b>	<b>Price/SF</b>	<b>OAR</b>
<b>Evening Star Building</b> 1101 Pennsylvania Ave, NW	<b>A</b>	1889	219,627	6/2010	\$180,000,000	\$819.57	5.2%
<b>1899 Pennsylvania Ave, NW</b>	<b>A</b>	1915	186,482	9/2010	\$151,100,000	\$810.27	5.6%
<b>Farragut Building</b> 900 17th St, NW	<b>A</b>	1963	146,648	9/2010	\$93,500,000	\$637.58	5.7%
<b>700 6th Street, NW</b>	<b>A</b>	2009	300,000	6/2011	\$191,000,000	\$636.67	5.5%
<b>1101 K Street, NW</b>	<b>A</b>	2006	293,598	3/2011	\$199,000,000	\$677.80	4.6%
<b>2121 K Street, NW</b>	<b>A</b>	1981	190,458	11/2010	\$82,443,249	\$432.87	7.5%
<b>US News Complex</b> 2300 N Street, NW	<b>A</b>	1986	279,264	2/2011	\$140,000,000	\$501.32	6.0%
<b>Akers Building</b> 1255 23rd St, NW	<b>A</b>	1983	341,443	1/2011	\$137,400,000	\$402.41	6.5%
<b>National Press Building</b> 529 14th St, NW	<b>B</b>	1928	490,960	6/2011	\$167,500,000	\$341.17	6.0%
<b>Longfellow Building</b> 1211 Connecticut Ave, NW	<b>B</b>	1967	125,119	12/2010	\$49,500,000	\$395.62	6.5%

The most recent survey of investors by PwC indicated that overall rates for Washington, DC office buildings ranged from 4.5% to 8.0%, and averaged 5.98%. This represents a decline in the average of 15 basis points in the past quarter, and 66 basis points in the past year.

Based on this data, we have analyzed the subject using an overall cap rate of 5.75%, which when applied to pro forma NOI indicates a rounded value of \$176,000,000, assuming completion of a renovation and stabilized occupancy. This equates to \$698.25 per rentable square foot, which is within the range indicated by the sale comparables, and is considered to be reasonable. The stabilized operating forecast and hypothetical valuation analysis for the Old Post Office based on the assumption of renovation for office use is presented in the following table.

**DIRECT CAPITALIZATION ANALYSIS  
OLD POST OFFICE BUILDING  
WASHINGTON, DC  
ASSUMING REDEVELOPMENT WITH OFFICE SPACE  
PRO FORMA AS OF SEPTEMBER 2011**

**REVENUES**

Standard Office Space at Market Rent	209,882	s.f.	\$45.00	per s.f.	\$9,444,690
Mezzanine Office Space at Market Rent	<u>15,141</u>	s.f.	\$40.00	per s.f.	<u>\$605,640</u>
Total Office Space	225,023	s.f.	\$44.66	per s.f.	\$10,050,330

Pennsylvania Avenue Restaurants	10,884	s.f.	\$45.00	per s.f.	\$489,780
Lower Level Retail Space	7,237	s.f.	\$35.00	per s.f.	\$253,295
Food Court Space	8,916	s.f.	\$60.00	per s.f.	\$534,960
Total Retail Space	27,037	s.f.	\$47.27	per s.f.	\$1,278,035

Potential Gross Rental Income	252,060	s.f.	\$44.94	per s.f.	\$11,328,365
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Expense Recoveries, Vacant Space	252,060	s.f.	\$23.44	per s.f.	<u>\$5,908,286</u>
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Potential Gross Income					\$17,236,651
Vacancy and Collection Allowance:	7.0%	of all rental income			<u>(1,206,566)</u>
Effective Gross Income					\$16,030,086

**OPERATING EXPENSES**

Real Estate Taxes			\$10.00	per s.f.	\$2,520,600
Insurance			\$0.35	per s.f.	88,221
Repairs & Maintenance			\$3.00	per s.f.	756,180
Management	2.5%		\$1.59	per s.f.	400,752
Janitorial & Cleaning			\$3.50	per s.f.	882,210
Utilities			\$4.00	per s.f.	1,008,240
General & Administrative			<u>\$1.00</u>	per s.f.	<u>252,060</u>
Total Operating Expenses			\$23.44	per s.f.	\$5,908,263

<b>NET OPERATING INCOME</b>					\$10,121,823
				Per S.F.	\$40.16

**INDICATED MARKET VALUE, ASSUMING COMPLETION & STABILIZED OCCUPANCY**

Net Operating Income Capitalized at	5.75%		\$176,031,698
		Rounded	<b>\$176,000,000</b>
		Per S.F.	\$698.25

**Feasibility Analysis - Renovated Hotel Use – Old Post Office**

**Space Configuration**

The key consideration in this analysis is the number of hotel rooms which could be supported within the existing building. Typically, a standard hotel room in a modern full service facility is about 300 to 350 square feet. Most high quality hotels add a small number of larger suites to the room inventory, which may range up to 1,000 square feet. These are the net spaces which are used by room occupants.

Hotels, especially full service properties, require substantial additional areas for such purposes as reception and lounge areas; restaurants and bars; meeting and banquet space; spas and recreational areas; retail shops; and back of the house areas, such as management offices, kitchens, laundry, storage, and the like. In most cases, the total gross building area for a hotel ranges between 500 s.f. and 1,000 s.f. per room. The more non-room services included in a hotel, the greater the ratio of floor area to rooms tends to be. Most full service hotels, in our experience, require at least 750 s.f. per room, while limited service hotels may be closer to, and sometimes lower than, 500 s.f. per room.

In the table of hotel sales which follows, we have included the building square footage reported by CoStar for each hotel, along with an indication of total building area per room. The first six hotels in the table are full service properties, which exhibit ratios ranging from 650 to 949 square feet per room.

For the subject, we have considered that hotel rooms would most likely be located on floors two through eight of the Old Post Office building. One problem with hotel use for the subject property is that, due to the large number of individual rooms, it would be very difficult to include much of the corridor space into hotel rooms, due to the need to maintain access to the elevators. Considering that there are elevators on both the west and east sides of the building, the only places where the corridors could potentially be incorporated into rooms would be at the center of the north and south sides of each building. Doing so would allow the remaining rooms to have access to one or the other elevator lobbies, and could create as many as four large suites on each floor which incorporate corridor space. Other places that would be appropriate for suites would include the corners of each floor, so that each floor could support approximately eight suites, or 56 throughout the building.

According to the analysis of building area under the Physically Possible section of this HBU analysis, we indicated that floors 2 through 8 have a reported 139,825 usable square feet, which already includes some corridor area. We estimate that this area could support 280 hotel rooms, which is approximately 500 square feet per room.

The physical analysis referred to above also indicates that we estimate that the Old Post Office building has a total floor area available for renovation of approximately 286,754 square feet on the ground floor, first floor, mezzanine, and upper floors (not including the ninth floor). Based on this figure, the estimate of 280 hotel rooms would result in a building area ratio of 1,024 s.f. per room, which is slightly higher than the range indicated by the comparables. We consider this to be appropriate, however, due to the lower than normal building efficiency at this property, resulting from large amounts of open floor area in the corridors and lower levels.

Based on the indications provided by the comparables, this amount of building area should be sufficient to support a full service hotel of this size. Public areas such as reception, lounges, restaurants, retail stores, meeting and banquet space, and amenity and recreational spaces; along with the required back of the house spaces; could feasibly be supported by the estimated 75,951 square feet of otherwise rentable floor area on the ground floor, first floor, and mezzanine area of the building. Otherwise, the ground floor contains a substantial amount of mechanical area, and additional open floor area in the center of the food court and outside of the clock tower. Additional floor space could be created by closing some of the openings between the first floor and ground floor, which would be permitted under the preservation guidelines described under the Legally Permissible analysis, previously.

One factor to be considered is that this arrangement would not permit the existing retail and food court uses to remain in the Old Post Office building, however the hotel itself would most likely remain a stopping place for tourists in the area, and the hotel could capitalize on this by providing convenience retail and food outlets in the public areas. We would also note that keeping these functions in one building would improve manageability, and would not require retention of the Annex Building, allowing that portion of the property to be redeveloped.

### **Stabilized Operating Estimate**

Gross Room Revenues: Our estimate of stabilized gross room revenues for a potential renovated hotel in the Old Post Office building was discussed earlier in this report, as part of the Hotel Market Analysis. Based on that analysis, we estimate gross room revenues based on an ADR of \$325.00, and an average occupancy rate of 75.0%, resulting in RevPAR of \$243.75 per night. This results in an estimated \$24,911,250 in gross room revenue per year, on a stabilized basis.

Food and Beverage Revenues: Food and beverage revenues have been stabilized based on the assumption that the renovation results in a full service hotel, with an array of restaurants and meeting facilities which are normal for the industry. Based on industry-wide operating results as reported in PKF's "Trends in the Hotel Industry, 2011" (see the following table), we

have estimated food and beverage revenues at 40% of room revenues, which would be 27.2% of total hotel revenue.

Other Operated Departments, and Rentals and Other Income: These are additional revenues resulting from such items as retail receipts, parking, rentals, and other revenue producing activities. Based on the PKF figures shown below, these revenue categories have been estimated at 5.0% and 2.0% of room revenues, respectively.

Operating Expenses: For this HBU analysis, we have estimated operating expenses for the subject, assuming completion of a major renovation and conversion to a hotel, utilizing data included in PKF's report, "Trends in the Hotel Industry, 2011" (see the following table). For full service hotels in the subject's location (Mid-Atlantic), with high projected room rates (over \$200), and a comparable hotel size (150 to 300 rooms), the comparisons on the following page have been generated.

All departmental expenses, undistributed expenses, management fees, and fixed charges have been estimated in a manner consistent with the results of the hotels participating in the survey. As a result, our projection indicates an operating expense ratio of 80.1% on a stabilized basis.

Net Operating Income: Based on the foregoing analysis, stabilized NOI has been estimated at \$7,284,548, which equates to \$26,018 per potential room, and an NOI to total revenue ratio of 19.9%. The comparables participating in the PKF survey reported average ratios ranging from 17.6% to 22.0%, which excludes FF&E reserves. Deducting 2.0% for reserves results in an adjusted range of 15.6% to 20.0%, placing the subject within the range indicated by these comparables.

**FULL-SERVICE HOTELS**

Custom Report

	All Full-Service Hotels			New England & Middle Atlantic			Over \$200.00			150 to 300 Rooms		
	2010 Dollars per Available Room	Change from Prior Year	2010 Percent of Revenue	2010 Dollars per Available Room	Change from Prior Year	2010 Percent of Revenue	2010 Dollars per Available Room	Change from Prior Year	2010 Percent of Revenue	2010 Dollars per Available Room	Change from Prior Year	2010 Percent of Revenue
<b>Revenues</b>												
Rooms	\$ 35,240	6.4%	66.0%	\$ 47,619	8.3%	68.2%	\$ 74,283	10.1%	60.1%	\$ 34,449	7.2%	67.1%
Food and Beverage	15,183	5.5%	28.4%	18,960	6.4%	27.2%	39,156	7.7%	31.7%	14,218	5.6%	27.7%
Other Operated Departments	2,250	4.4%	4.2%	2,356	0.6%	3.4%	8,009	2.5%	6.5%	2,083	2.1%	4.1%
Rentals and Other Income	743	-12.1%	1.4%	852	-9.2%	1.2%	2,056	-11.1%	1.7%	573	-14.3%	1.1%
Total Revenues	\$ 53,416	5.8%	100.0%	\$ 69,787	7.2%	100.0%	\$ 123,505	8.4%	100.0%	\$ 51,324	6.2%	100.0%
<b>Departmental Costs and Expenses</b>												
Rooms	\$ 10,087	5.3%	28.6%	\$ 13,547	5.9%	28.4%	\$ 22,947	6.6%	30.9%	\$ 9,400	5.8%	27.3%
Food and Beverage	11,830	4.6%	77.9%	15,254	4.4%	80.5%	33,299	4.5%	85.0%	11,321	3.9%	79.6%
Other Operated Departments	1,627	2.9%	72.3%	1,712	1.1%	72.7%	6,158	1.2%	76.9%	1,609	0.7%	77.2%
Total Costs and Expenses	\$ 23,544	4.8%	44.1%	\$ 30,513	4.9%	43.7%	\$ 62,403	4.9%	50.5%	\$ 22,330	4.5%	43.5%
<b>Total Operated Departmental Income</b>	\$ 29,873	6.6%	55.9%	\$ 39,274	9.2%	56.3%	\$ 61,102	12.1%	49.5%	\$ 28,994	7.7%	56.5%
<b>Undistributed Operating Expenses</b>												
Administrative and General	\$ 5,118	3.4%	9.6%	\$ 6,254	4.6%	9.0%	\$ 11,595	5.9%	9.4%	\$ 5,100	4.1%	9.9%
Sales and Marketing	4,603	4.9%	8.6%	5,433	6.6%	7.8%	7,813	2.9%	6.3%	4,896	6.6%	9.5%
Property Operation and Maintenance	2,637	2.2%	4.9%	3,140	2.5%	4.5%	5,774	4.7%	4.7%	2,568	2.4%	5.0%
Utility Costs	2,301	1.1%	4.3%	3,084	0.8%	4.4%	4,334	1.3%	3.5%	2,299	0.4%	4.5%
Total Undistributed Expenses	\$ 14,660	3.3%	27.4%	\$ 17,911	4.1%	25.7%	\$ 29,516	4.1%	23.9%	\$ 14,864	4.1%	29.0%
<b>Gross Operating Profit</b>	\$ 15,213	10.0%	28.5%	\$ 21,362	13.8%	30.6%	\$ 31,586	20.7%	25.6%	\$ 14,130	11.7%	27.5%
<b>Management Fees</b>	\$ 1,639	7.7%	3.1%	\$ 2,047	9.6%	2.9%	\$ 3,228	9.2%	2.6%	\$ 1,558	7.7%	3.0%
<b>Income Before Fixed Charges</b>	\$ 13,574	10.3%	25.4%	\$ 19,316	14.2%	27.7%	\$ 28,358	22.2%	23.0%	\$ 12,572	12.3%	24.5%
<b>Fixed Charges</b>												
Property Taxes and Other Municipal Charges	\$ 1,919	-3.9%	3.6%	\$ 3,349	-0.9%	4.8%	\$ 5,088	-3.6%	4.1%	\$ 1,952	-1.8%	3.8%
Insurance	633	-6.6%	1.2%	590	-4.9%	0.8%	1,496	-3.8%	1.2%	589	-5.7%	1.1%
Total Fixed Charges	\$ 2,552	-4.6%	4.8%	\$ 3,939	-1.6%	5.6%	\$ 6,584	-3.6%	5.3%	\$ 2,541	-2.8%	5.0%
<b>Net Operating Income</b>	\$ 11,023	14.4%	20.6%	\$ 15,377	19.1%	22.0%	\$ 21,774	33.0%	17.6%	\$ 10,030	16.8%	19.5%
<b>Percent of Occupancy</b>	68.6%	6.7%		72.7%	6.1%		73.0%	7.1%		67.1%	7.1%	
<b>Average Daily Rate</b>	\$140.75	-0.2%		\$179.45	2.0%		\$278.95	2.8%		\$140.76	0.1%	
<b>RevPAR</b>	\$96.55	6.4%		\$130.46	8.3%		\$203.52	10.1%		\$94.38	7.2%	
<b>Average Size (Rooms)</b>	268	-		263	-		294	0.1%		222	-	

**Direct Capitalization and Indicated Value**

To provide an indication of the potential value of the Old Post Office following a major renovation and conversion to a hotel, we have utilized the direct capitalization method. To select an overall capitalization rate, we have considered the following recent sales of hotels in downtown, Washington, DC, and in the surrounding areas:

Property	Yr Blt	Rooms	Bldg SF	SF/Room	Date	Price	Price/SF	Price/Rm	OAR
<b>Sofitel Lafayette Square</b> 806 15th St, NW	1929	237	154,000	650	3/2010	\$95,000,000	\$616.88	\$400,844	6.0%
<b>St. Regis Hotel</b> 923 16th St, NW	1926	182	177,323	974	5/2011	\$100,000,000	\$563.94	\$549,451	5.0%
<b>Hotel Monaco (Leasehold)</b> 700 F St, NW	1839	183	173,622	949	9/2010	\$74,000,000	\$426.21	\$404,372	6.4%
<b>Hampton Inn</b> 901 6th St, NW	2005	228	161,193	707	9/2010	\$73,000,000	\$452.87	\$320,175	6.7%
<b>Hilton Alexandria Mark Ctr</b> 5000 Seminary Road, Alexandria, VA	1985	496	448,100	903	1/2011	\$121,000,000	\$270.03	\$243,952	5.5%
<b>Doubletree Bethesda</b> 8120 Wisconsin Ave, Bethesda, MD	1971	269	192,914	717	6/2010	\$67,100,000	\$347.82	\$249,442	6.9%
<b>Capitol Hill Suites</b> 200-220 C St, SE	1953	152	90,730	597	4/2011	\$47,500,000	\$523.53	\$312,500	
<b>Homewood Suites</b> 1475 Massachusetts Ave, NW	2001	175	154,688	884	7/2010	\$56,900,000	\$367.84	\$325,143	
<b>Courtyard Washington Navy Yard</b> 140 L St, SE	2006	204	121,000	593	6/2011	\$68,000,000	\$561.98	\$333,333	
<b>Red Roof Inn</b> 400 H St, NW	1988	196	111,056	567	6/2010	\$40,000,000	\$360.18	\$204,082	

The first six sales involve full service properties, and indicate OARs ranging from 5.0% to 6.9%. The sales took place between 4 months and 18 months in the past, and recent investor surveys (see below) indicate that OAR expectations have declined 83 basis points in the past quarter, and 154 basis points in the past year (though starting from a much higher base, we note). This suggests that these sales would indicate a lower range of rates today. The Sofitel sold at a 6.0% rate, but that sale took place over one year ago; the St. Regis is the most recent sale, and it traded at a reported 5.0% cap rate. Considering the sharp downward trend in rates for hotels, it is our opinion that for a property such as the subject, which would have a very good location, a rate at the low end of the indicated range would be appropriate.

The most recent survey of investors by PwC indicated that overall rates for full service hotels ranged from 6.0% to 10.0%, and averaged 7.96%. This represents a decline in the average of 83 basis points in the past quarter, and 154 basis points in the past year.

Based on this data, we have analyzed the subject using an overall cap rate of 5.25%, which when applied to pro forma NOI indicates a rounded value of \$138,800,000, assuming

completion of a renovation and conversion to hotel use, as well as stabilized occupancy. This equates to \$495,714 per potential room, which is within the range indicated by the sale comparables, and is considered to be reasonable. The stabilized operating forecast and hypothetical valuation analysis for the Old Post Office based on the assumption of renovation for hotel use is presented in the following table.

We note that the recent sale of the Monaco Hotel, which occurred in September 2010, was the sale of a leasehold interest at \$404,372 per room. Based on our understanding of the terms of the ground lease and the operations of the hotel, we estimate that the leased fee component of the property may be worth as much as \$100,000 per room, suggesting that a fee simple interest could potentially sell for a price over \$500,000 per room. The first three sales in the table involve historic buildings in downtown Washington, and provide the most reliable indication of potential value for the subject as a renovated hotel.



**DIRECT CAPITALIZATION ANALYSIS  
OLD POST OFFICE BUILDING  
WASHINGTON, DC  
ASSUMING REDEVELOPMENT AS A HOTEL  
PRO FORMA AS OF SEPTEMBER 2011**

**REVENUES**

**Gross Room Revenues**

Number of Rooms	280
Rooms Available Per Year	102,200
Stabilized Occupancy Rate	75.0%
Rooms Occupied Per Year	76,650
Stabilized Average Daily Room Rate	\$325.00
Indicated RevPAR	\$243.75

**Hotel Revenues**

					Total	% of Gross Revenue	/Room
Gross Room Revenue	\$325.00	ADR x	76,650	Occupied Rooms Per Year	\$24,911,250	68.0%	\$88,969
Food and Beverage			40.0%	of Room Sales	9,964,500	27.2%	\$35,588
Other Operated Departments			5.0%	of Room Sales	1,245,563	3.4%	\$4,448
Rentals and Other Income			2.0%	of Room Sales	<u>498,225</u>	1.4%	<u>\$1,779</u>
Total Hotel Revenues					\$36,619,538	100.0%	\$130,784

**DEPARTMENTAL COSTS AND EXPENSES**

Rooms	28.5%	of Rooms Revenue	\$7,099,706	19.4%	\$25,356
Food and Beverage	80.0%	of F & B Revenue	\$7,971,600	21.8%	\$28,470
Other Operated Departments	75.0%	of Other Op. Dept. Revenue	<u>\$934,172</u>	2.6%	<u>\$3,336</u>
Total Direct Operating Expenses			\$16,005,478	43.7%	\$57,162

**Total Departmental Income**

\$20,614,059      56.3%      \$73,622

**Undistributed Operating Expenses**

Administrative & General	9.5%	of Total Hotel Revenues	\$3,478,856	9.5%	\$12,424
Sales and Marketing	7.5%	of Total Hotel Revenues	\$2,746,465	7.5%	\$9,809
Property Operation and Maintenance	4.8%	of Total Hotel Revenues	\$1,757,738	4.8%	\$6,278
Utilities	4.3%	of Total Hotel Revenues	\$1,574,640	4.3%	\$5,624
Management Fees	2.8%	of Total Hotel Revenues	<u>\$1,025,347</u>	2.8%	<u>\$3,662</u>
Total Indirect Operating Expenses			\$10,583,046	28.9%	\$37,797

**Gross Operating Profit**

\$10,031,013      27.4%      \$35,825

**FIXED CHARGES**

Property Taxes & Other Municipal Charges	4.5%	of Total Hotel Revenues	\$1,647,879	4.5%	\$5,885
Insurance	1.0%	of Total Hotel Revenues	\$366,195	1.0%	\$1,308
FF&E Reserves	2.0%	of Total Hotel Revenues	<u>732,391</u>	2.0%	<u>\$2,616</u>
Total Fixed Expenses			\$2,746,465	7.5%	\$9,809

**NET OPERATING INCOME**

\$7,284,548      19.9%      \$26,016

**Operating Expense Ratio**

80.1%

**FEE SIMPLE VALUE BY DIRECT CAPITALIZATION**

Net Operating Income Capitalized at	5.25%	\$138,753,290	
	<b>Rounded</b>	<b>\$138,800,000</b>	<b>\$495,714</b>

**Feasibility Analysis - Renovated Multi-Family Building – Old Post Office**

For the purpose of testing the feasibility of a redevelopment of the Old Post Office building into multi-family units, we have performed a pro forma analysis based on the assumption that the units would be occupied as rentals as opposed to being sold as condominiums. Not only is the prospect for private ownership of condominium space in the Federal Triangle potentially problematic for the federal government, but developers in the area tend to favor apartment rentals over condominium sales based on market conditions at the present time.

**Space Configuration**

Apartment Units: The key factor in this analysis is the number of apartment units which could be accommodated in the subject property, assuming renovation. We would assume that the apartment units would be located on Floors 2 through 8, which contain an indicated usable area of 139,825 square feet. This already includes some enclosed corridor space, as mentioned previously under the feasibility analysis for hotel use. However, considering that apartment units are larger than hotel units, it would most likely be possible to incorporate a greater amount of the corridor area into demised apartment units. As in the case of redevelopment for hotel use, it is most likely that this conversion would take place in the middle of the corridors along the north and south sides of the building, allowing all units access to the elevators on either the east or west sides.

As noted in the Apartment Market Analysis, it is our opinion that apartment units serving this market would include studio, one bedroom, and two bedroom units at an average of approximately 800 square feet. In our opinion, it is reasonable that an additional 12,000 square feet of corridor space could be incorporated into apartment units; considering a width of about 30 feet for each unit, and four units on each floor which would incorporate the 14 foot-wide corridors, potentially 1,680 square feet of space on each floor could be converted from corridor to usable apartment area, totaling almost 12,000 square feet for each floor. Considering that about 6,500 s.f. of corridor space is already included in the GSA's measurement of usable area, the total usable area available for apartment units on these floors would be about 145,000 square feet. We have assumed that this area could support an estimated 182 apartment units, which is approximately 800 square feet per unit.

Apartment Office and Amenity Space: Typically, Class A apartment buildings in the area have on site management offices, as well as an array of indoor amenities including resident lounges with kitchenettes; guest suites; fitness centers; business centers, perhaps with conference rooms; game rooms; and media rooms. Outdoor amenities may include rooftop decks and outdoor swimming pools located on rooftops or in courtyards. Due to the nature of the subject building, and the inability to make changes to its exterior, there would be no opportunity for

outdoor amenities. As a result, we believe that an enhanced indoor amenity package would be appropriate, and it is our opinion that all of these facilities could easily be accommodated on the first floor and the mezzanine level, using the following spaces:

<b>First Floor &amp; Mezzanine Spaces</b>	<b>Usable SF</b>
NEA Office Space	5,492
Upper Level of Retail Unit 101	3,553
Unit 232	361
GSA Meeting Room	1,530
Mezzanine Unit 300 & Mezzanine Corridor	13,519
<b>Total</b>	<b>24,455</b>

In addition to these demised spaces, there is an estimated 17,000 square feet of open floor area on the first floor to serve as reception and lounge space, and to enhance the appeal of an amenity package at the subject.

Retail and Office Activities: Mixed use buildings incorporating apartments with retail and office space are not uncommon in the area, and it is our opinion that this would be appropriate for the subject. The entire ground floor retail operation could remain as an element of the project, since the apartment building would only require part of the first floor space for amenities. On the first floor, the Pennsylvania Avenue restaurants could remain, which as noted previously total 10,884 square feet.

First floor office space was estimated previously at 17,570 usable square feet, though as noted above four of these spaces would be required for the provision of apartment amenities, totaling 9,556 square feet (this does not include the mezzanine). As a result, 8,014 square feet of space could be made available for office users, possibly with an orientation toward small museums or other types of exhibitors.

### **Stabilized Operating Estimate**

Apartment Rents: As discussed above, and in the Apartment Market Analysis, we have estimated gross rents for apartment units averaging 800 square feet, at an average of \$3.50 per square foot, for a total average monthly rent of \$2,800.

Miscellaneous Income: Based on our experience with new apartment projects, miscellaneous income typically ranges from 1.0% to 10.0% of apartment rents, with recent projects often generating revenues close to the high end of the range, reflecting additional receipts for parking, utility recoveries (water/sewer and trash collection), amenity fees, and a variety of other fees and rents. For the subject, we have estimated this revenue stream at 5.0%, which reflects the lack of on site parking.

Commercial Revenues: These items have been based on estimates discussed in the Feasibility Analysis for Office Use, above. We have included commercial rents for the entire ground floor, the restaurants located along Pennsylvania Avenue, and for an estimated 8,014 square feet of first floor office/exhibit space which would not be needed for apartment amenities. The gross rents for these spaces have been adjusted downward by 10% to reflect the impact of losses for vacancy, collections, and non-recoverable operating expenses.

Vacancy and Collection Losses for Apartments: Based on the performance of the local market and the apartment rent comparables as discussed in the Apartment Market Analysis, we estimate vacancy and collection losses for the apartments at 5.0%. Since we have already allowed for such losses for the commercial space, this ratio is only applied to the apartment revenues.

Operating Expenses: For this HBU analysis, we have estimated operating expenses for the subject, assuming completion of a major renovation and conversion to an apartment building, utilizing four apartment comparables in Washington, DC, summarized in the following table.

**EXPENSE COMPARABLES**

Expense Category	Expense Year	2008	2008	2011 Budg.	2011 Budg.
	Utilities Included	Water	Water	Water	Water
	Project Type Year Built/Renov	Hi Rise 2000	Hi Rise 2004	Hi Rise 2009	Hi Rise 2007
Real Estate Taxes		\$2,382	\$3,690	\$3,052	\$982
Insurance		\$234	In RET	\$322	\$481
Utilities		\$750	\$640	\$1,010	\$1,814
Repairs & Maintenance		\$1,182	\$1,307	\$668	\$1,454
Payroll		\$2,232	\$2,116	\$2,248	\$2,905
Management Fees		\$551	\$706	\$636	\$780
General & Administrative		\$477	\$1,289	\$409	\$665
Marketing		\$410	In Admin	\$434	\$628
Capital Replacements		NA	NA	NA	NA
<b>Total Expenses</b>		<b>\$8,218</b>	<b>\$9,748</b>	<b>\$8,779</b>	<b>\$9,709</b>
	<b>Expense Ratio</b>	<b>38.7%</b>	<b>NA</b>	<b>38.0%</b>	<b>36.9%</b>

Real estate taxes have been estimated for the subject property at \$4,250 per unit, based on an estimated assessment of \$500,000 per unit, and the current tax rate of \$0.85 per \$100. An amount of \$250 per unit has been added to account for other possible levies such as a BID tax, for a total tax burden estimated at \$4,500 per unit.

All remaining operating expenses have been estimated in a manner consistent with the results of the hotels participating in the survey. As a result, our projection indicates an operating expense ratio of 26.8% on a stabilized basis. This is well below the ratios indicated by the comparables, which is to be expected given that our projection includes a total additional commercial income of almost \$1,500,000 per year. If this amount were removed, the indicated OER would be reasonably consistent with the comparables.

Net Operating Income: Based on the foregoing analysis, stabilized NOI has been estimated at \$5,542,939, which equates to \$30,456 per potential apartment unit.

### **Direct Capitalization and Indicated Value**

To provide an indication of the potential value of the Old Post Office following a major renovation and conversion to an apartment building, we have utilized the direct capitalization method. To select an overall capitalization rate, we have considered the following recent sales of apartment properties in downtown, Washington, DC, and in the surrounding areas:

<b>Property</b>	<b>Yr Blt</b>	<b>Rooms</b>	<b>Bldg SF</b>	<b>SF/Unit</b>	<b>Date</b>	<b>Price</b>	<b>Price/Unit</b>	<b>OAR</b>
<b>View 14</b> 2303 14th St, NW	2009	185	185,339	1,002	6/2011	\$106,000,000	\$572,973	4.3%
<b>Ellington Plaza</b> 1301 U St, NW	2003	190	216,824	1,141	9/2011	\$100,000,000	\$526,316	
<b>V at City Vista</b> 460 L Street, NW	2008	244	177,370	727	8/2010	\$66,000,000	\$270,492	5.8%
<b>Senate Square</b> 215 I Street, NE	2007	432	462,953	1,072	7/2010	\$161,656,000	\$374,204	5.0%
<b>Massachusetts Court</b> 300 Massachusetts Ave, NW	2004	371	300,000	809	2/2010	\$105,500,000	\$284,367	5.9%
<b>The Palatine</b> 1301 N. Troy St, Arlington, VA	2008	262	276,354	1,055	5/2011	\$141,750,000	\$541,031	4.3%
<b>Liberty Tower</b> 818 N. Quincy St, Arlington, VA	2008	235	220,939	940	8/2010	\$100,000,000	\$425,532	5.1%

Five of the six sales indicated OARs ranging from 4.3% to 5.9%. The sales took place between 0 and 19 months in the past, and recent investor surveys (see below) indicate that OAR expectations have declined 12 basis points in the past quarter, and 117 basis points in the past year. This suggests that these sales would indicate a lower range of rates today.

The most recent survey of investors by PwC indicated that overall rates for apartments in the Mid-Atlantic region ranged from 4.0% to 7.5%, and averaged 5.98%. This represents a decline in the average of 12 basis points in the past quarter, and 117 basis points in the past year.

Based on this data, we have analyzed the subject using an overall cap rate of 5.0%, which when applied to pro forma NOI indicates a rounded value of \$110,900,000, assuming completion of a renovation and conversion to apartment use, as well as stabilized occupancy. This equates to \$609,341 per potential unit, which is higher than the range indicated by the sale comparables. However, this is considered to be reasonable, since the subject's estimated NOI includes revenue of \$1,474,799 based on commercial space. The stabilized operating forecast and hypothetical valuation analysis for the Old Post Office based on the assumption of renovation for multi-family rental use is presented in the following table.

**DIRECT CAPITALIZATION ANALYSIS  
OLD POST OFFICE BUILDING  
WASHINGTON, DC  
ASSUMING REDEVELOPMENT AS AN APARTMENT BUILDING  
PRO FORMA AS OF SEPTEMBER 2011**

**REVENUES**

	Units	Monthly Rent	Total	Per Unit
<b>Apartment Revenues</b>				
All Units at Market Rent	182	\$2,800	\$6,115,200	\$33,600
Miscellaneous Income	5.0% of Apartment Rent		\$305,760	\$1,680
Total Apartment Income			\$6,420,960	
<b>Commercial Revenues</b>				
Ground Floor Retail Rent \1			\$709,430	
Pennsylvania Avenue Restaurants \1			\$440,802	
First Floor Office Rent \2			\$324,567	
Total Commercial Rent			\$1,474,799	
<b>Potential Gross Income</b>			\$7,895,759	\$43,383
Vacancy and Collection Allowance, Apartments		5.00% of Apt. Income	(321,048)	
<b>Effective Gross Income</b>			\$7,574,711	\$41,619

**OPERATING EXPENSES**

Real Estate Taxes		\$4,500	\$819,000	
Insurance		\$325	\$59,150	
Utilities		\$750	\$136,500	
Repairs & Maintenance		\$1,000	\$182,000	
Payroll Expenses		\$2,200	\$400,400	
Management Fee	3.0%	\$1,249	\$227,241	
General & Administrative		\$400	\$72,800	
Marketing		\$440	\$80,080	
Reserves		\$300	\$54,600	
Total Operating Expenses		\$11,164	\$2,031,771	\$11,164
Expense Ratio			26.8%	

**NET OPERATING INCOME**

\$5,542,939      \$30,456

**INDICATED VALUE**

NOI Capitalized at	5.00%	\$110,858,784
	<b>Rounded</b>	<b>\$110,900,000</b>
	<b>Per Unit</b>	<b>\$609,341</b>

1/ Reflects amount estimated for Office HBU, minus 10% for vacancy, collection, and expense recovery losses.

2/ 8,014 s.f. at \$45.00 per s.f., minus 10% for vacancy, collection, and expense recovery losses.

**Conclusion - Old Post Office Building**

Each of the analyses presented above - for office, hotel, and apartment uses, with a retail/commercial component as appropriate - indicate that the particular use is considered to be feasible. This reflects that, in each case, estimated potential revenues appear to be sufficient to cover operating costs and generate NOI and potential value which is sufficient to generate a positive return to both land and buildings.

**Feasibility Analysis - Annex Building**

The primary difference between the Old Post Office and the Annex Building is that the Annex could remain in the retail use for which it was originally designed and constructed (renovations would be required), or it could be renovated to accommodate a variety of alternative uses, such as office, hotel, multi-family, meetings and conferences, museum space, or parking. It also appears to be legally permissible to remove this building for potential redevelopment of the site. Therefore, the first consideration in highest and best use, for the Annex, is whether the improvements add value to the site.

In the analysis of Legal Permissibility, discussed above, we estimated the building footprint which would be available to a developer of the Annex Site. Allowing a 50 foot setback from the IRS building and a 30 foot setback from the Old Post Office building, it would appear that a footprint of 15,510 square feet. If the setbacks from the IRS building were reduced to 30 feet, the footprint could potentially expand to 23,850 square feet.

In all likelihood, a buyer of the site would structure a contract which would be contingent on approval for redevelopment, in which the price paid for the site would depend on the success of the redevelopment approval effort, and the amount of square footage ultimately approved for development. For this appraisal, however, we are estimating as-is value, and a selection of an appropriate basis for value must be made. Since a buyer would be expected to recognize both the potential for maximal development of the site, as well as the risks associated with approval, it is reasonable to base an estimate of as-is value on a figure between the low and high estimates of development density. Therefore, we have based our estimate of value for the annex site on a potential building footprint of 20,000 square feet. Since we also estimated that the maximum building height would permit eight floors, total developable density on the Annex site is estimated at 160,000 square feet.

In Part 1 of this report, we estimated the value of FAR density at the Annex site at \$175 per FAR foot. However, this estimate did not recognize the impact of the costs and risks associated with gaining development approval for this site. The Annex site is not zoned, so the approval process would involve a variety of District and Federal agencies, many of which



would have competing agendas regarding the density of the site, with some most likely preferring no development whatsoever. It is likely, therefore, that an effort to gain approval for development would be a lengthy and costly process, and its outcome would be uncertain. The best case scenario would most likely be approval to develop a building with a 20,000 s.f. or larger floor print, while the worst case would be denial of a request to build any new structure whatsoever. In the worst case scenario, the developer would be left with the alternative to redevelop the existing Annex building, which is only about 100,000 square feet, with approximately 1/3 of that space being below grade. To reflect the impact of the time, costs, and risks associated with approval, we have applied an additional discount of 20% to our prior estimate of \$175 per FAR foot, to reflect an as-is value of the site with no approval contingencies. This would indicate a value of \$140 per FAR foot, which applied to the potential 160,000 s.f. density, would indicate a total value for the site of **\$22,400,000.**

This exceeds the indicated as-is value of the Annex based on continued use of the existing building, as described in Part 1 of this appraisal, by a substantial margin. Under this analysis, therefore, the Annex improvements do not appear to add value to the site. As such, retention of the existing improvements would not be financially feasible, since doing so would result in a reduction in the value of the property.

## **ANALYSIS OF THE MAXIMALLY PROFITABLE USE**

In regard to the Old Post Office, all of the primary development opportunities examined above appear to be financially feasible. In order to determine the highest and best use of the property, we have compared the financial outcome of the alternative uses to attempt to determine which would be maximally profitable.

A significant limitation of this analysis is that no estimates of renovation cost, for any of the alternative uses, has been performed by a qualified construction engineer. Considering the intricacies of the project, this would be the only way to arrive at a reliable estimate of renovation cost. However, it has been our experience that renovation costs for complete “gut” renovations such as that anticipated for the subject are often reasonably consistent with costs for new construction. This might be unexpected, since structural members of the existing building, in a renovation of this type, are retained and used in the development, and need not be constructed anew. However, retaining the existing structure complicates demolition since it must be done selectively, and typically increases demolition cost. In addition, renovation costs, once the building shell has been prepared, can be as expensive as new construction costs, and at times are more expensive. This reflects the increased complexity of the project, due to the need to protect existing building elements, and work around them as construction progresses.

For this appraisal, we have made the extraordinary assumption that new construction cost estimates, derived from the Marshall Valuation Service cost manual, are reasonably reflective of renovation costs for the development alternatives being analyzed. Even if the MVS cost estimates are not consistent with actual renovation costs, they may be reliable in regard to establishing the relative costs that would apply to an office, hotel, or apartment renovation. This alone may help to establish maximal profitability among the redevelopment alternatives.

Maximal profitability has been evaluated by comparing the projected stabilized values for each use alternative to the indicated cost to construct a building of comparable size, according to the MVS cost manual. The cost estimates have been based on our estimate of gross building area for the Old Post Office building, minus 10% to allow for the space which will be retained by the National Park Service for the clock tower. We have also assumed that the ground floor is equivalent to the land area of the site (61,436 s.f.), and we have reduced this figure by 10% to allow for the space allocated to the clock tower as well. The comparisons are summarized below:

	Office Use	Hotel Use	Apartment Use
<b>Indicated Values</b>			
Stabilized Value Estimate	\$176,000,000	\$138,800,000	\$110,900,000
<b>Indicated Construction Costs</b>			
MVS Reference (Sec, Page, Class, Quality)	15/17/A/Excellent	11/25/A/Excellent	11/15/A/Avg-Good
Above Grade Square GSF	317,930	317,930	317,930
Indicated Cost Per SF	\$228.51	\$213.08	\$204.09
Sprinkler Cost	\$3.00	\$3.00	\$3.00
Unadjusted Cost Per SF	\$231.51	\$216.08	\$207.09
Current and Local Multipliers	1.177	1.155	1.155
Adjusted Cost Per SF	\$272.53	\$249.66	\$239.27
Added Adjustment \1	1.100	1.100	1.100
Estimated Cost Per SF	\$299.79	\$274.62	\$263.20
Estimated Above Grade Cost	\$95,311,109	\$87,311,298	\$83,678,715
Basement GSF	55,292	55,292	55,292
Indicated Cost Per SF	\$75.00	\$62.00	\$50.00
Sprinkler Cost	\$3.00	\$3.00	\$3.00
Unadjusted Cost Per SF	\$78.00	\$65.00	\$53.00
Current and Local Multipliers	1.177	1.155	1.155
Adjusted Cost Per SF	\$91.82	\$75.10	\$61.24
Added Adjustment \1	1.100	1.100	1.100
Estimated Cost Per SF	\$101.00	\$82.61	\$67.36
Estimated Below Grade Cost	\$5,584,740	\$4,567,766	\$3,724,486
Furniture, Fixtures, & Equipment	\$0	\$2,800,000	\$910,000
Total Indicated Cost	\$100,895,849	\$94,679,064	\$88,313,201
<b>Return Available for Profit and Acquisition</b>	<b>\$75,104,151</b>	<b>\$44,120,936</b>	<b>\$22,586,799</b>

1/ For additional soft costs, start-up costs, and complexity of the project.

Based on these comparisons, it appears that renovation for Class A office use is the most profitable among the alternatives identified for the subject property. Based on this indication, it is our opinion that renovation of the property for continued office use, with the ground floor being retained as retail and food court space, and the 1<sup>st</sup> level being converted to office use for tenants with a public orientation, is the most profitable use of the Old Post Office, and therefore is its highest and best use.

In regard to the Annex, the analysis of financial feasibility indicated that redevelopment of the site was its highest and best use, since retention of the existing improvements would appear to result in a loss in land value.

**RENTAL RATE NECESSARY TO SUPPORT NEW CONSTRUCTION**

The client requested that, as part of the valuation, we estimate the rental rate necessary to support the cost of new construction in the subject's location. Based on cost data provided above, we estimate that a new office building would cost approximately \$300 per square foot for the building and associated site improvements. To this we would add an entrepreneurial profit incentive of 10%, and land acquisition cost of \$210 per FAR foot. Based on these factors, a total development cost of \$540 per building square foot is indicated.

Recent sales indicate that an overall capitalization rate of 5.75% is reasonable for new construction, which would in turn suggest that a new building would need to generate NOI of about \$31.05 per square foot to be feasible. Adding operating expenses of \$23.50 per square foot for a new building would indicate an effective gross income requirement of \$54.55 per square foot. However, we must also adjust for an average vacancy and collection loss rate of 7.0% for the East End submarket, resulting in an indicated full service rent of **\$58.37** per square foot to feasibly support the cost of new construction.

Based on evidence presented in the Income Approach, it appears reasonable to expect that the figure noted above, \$58.37, could be attained in the current market, for new Class A construction at the subject site.

**SALES COMPARISON APPROACH – OLD POST OFFICE**

For this appraisal, the direct comparison technique has been used to estimate the subject property's value. Direct comparison involves analysis of each comparable based on those elements which have a measurable effect on market value. The unit price of each comparable is then adjusted, on the basis of differences between its elements and those of the subject, to reflect the characteristics of the subject property. Assuming that the market will determine price for the subject in the same manner as the comparables, this analysis results in an indication of price for the subject property.

In the highest and best use analysis for this Part 2 of the appraisal, we made the judgment that office use on all above grade floors, combined with continued retail and food court use in the lower level, was the highest and best use of the subject. Due to the age of the finishes in the Old Post Office, the need to extensively renovate several elements of the exterior such as the roof, skylight, and windows, and due to the need to substantially upgrade the mechanical systems, it is our opinion that improving the property to Class A quality can only be undertaken on the basis of a substantial "gut" renovation of the building.

In order to indicate the value of the building under this scenario, we have compared the Old Post Office to recent sales of office buildings in Washington, DC for full renovation and repositioning. The following transactions have been selected from the local market as being most comparable:

	<b>Comp 1</b>	<b>Comp 2</b>	<b>Comp 3</b>	<b>Comp 4</b>	<b>Comp 5</b>
<b>Property/Address</b>	1100 Vermont Ave, NW Washington, DC	440 1st Street, NW Washington, DC	2055 L Street, NW Washington, DC	624 9th St, NW Washington, DC	200 Eye St, SE Washington, DC
<b>Sale Date</b>	Apr-11	Dec-10	Dec-10	Mar-10	Oct-09
<b>Net Rentable Area (SF)</b>	79,510	104,746	102,854	93,553	421,017
<b>Land Area (SF)</b>	6,978	16,479	Condo-NA	12,998	92,817
<b>Floor Area Ratio</b>	11.39	6.36		7.20	4.54
<b>Year Built/Renovated</b>	1961	1982	1963	1981	1959
<b>Quality/Condition</b>	Below Average	Below Average	Below Average	Below Average	Below Average
<b>Parking</b>	2.5 per 1,000 sf	0.91 per 1,000 sf	1.0 per 1,000 sf	None	Bsm't Conv. To Gar.
<b>Consideration</b>	\$14,200,000	\$23,300,000	\$12,750,000	\$21,000,000	\$85,200,000
<b>Price Per S.F. (NRA)</b>	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
<b>Occupancy Rate</b>	0.0%	0.0%	2.7%	80.0%	0.0%

The sales summarized above are described in detail on the following pages, along with a map indicating their locations in comparison to the subject's.

**Improved Sale No. 1****Property Identification**

<b>Record ID</b>	3615
<b>Property Type</b>	Office, Shell Building
<b>Address</b>	1100 Vermont Avenue, NW, Washington, Washington D.C. 20530
<b>Tax ID</b>	Square 214, Lot 850

**Sale Data**

<b>Grantor</b>	1100 Vermont Owner LLC (Stuart Levin, TR)
<b>Grantee</b>	7 K, LC
<b>Sale Date</b>	April 20, 2011
<b>Deed Book/Page</b>	2011-046884
<b>Property Rights</b>	Fee simple
<b>Financing</b>	All cash
<b>Verification</b>	Buyer; CoStar

<b>Sale Price</b>	\$14,200,000
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**Land Data**

<b>Land Size</b>	0.160 Acres or 6,978 SF
<b>Zoning</b>	C-4

**General Physical Data**

<b>Building Type</b>	Single Tenant
<b>Net Rentable SF</b>	79,510

<b>Construction Type</b>	Concrete & Glass Class B Office
<b>Stories</b>	12
<b>Year Built</b>	1961
<b>Condition</b>	Below Average

**Improved Sale No. 1, Cont.****Indicators**

<b>Sale Price/ SF</b>	\$178.59
<b>Occupancy at Sale</b>	0%

**Remarks**

An existing Class B office building, located at the corner of Vermont Avenue and L Street, NW in the East End submarket of downtown Washington. The property is currently vacant, and the new owner plans renovations, including a substantial replacement of interior finishes, and a "face lift" of the exterior. Reported renovation costs are \$7.5 to \$8.0 million. Costar indicates that this building is vacant, however at the time of our inspection a small amount of first floor retail space may have been occupied. The building advertises 200 below grade parking spaces.

**Improved Sale No. 2****Property Identification**

<b>Record ID</b>	3616
<b>Property Type</b>	Office, Shell Building
<b>Address</b>	440 1 <sup>st</sup> Street, NW, Washington, Washington D.C. 20001
<b>Tax ID</b>	Square 571, Lot 55

**Sale Data**

<b>Grantor</b>	440 1 <sup>st</sup> Street LP & Brotherhood of Maintenance of Way Employees Div.
<b>Grantee</b>	FP 440 1 <sup>st</sup> Street LLC
<b>Sale Date</b>	December 28, 2010 Leased fee
<b>Deed Book/Page</b>	2010-115057 & 2011-004662
<b>Property Rights</b>	Fee simple
<b>Conditions of Sale</b>	Two purchases – Leased fee + Leasehold
<b>Financing</b>	All cash
<b>Verification</b>	Broker

<b>Sale Price</b>	\$15,300,000 Leasehold
<b>Upward Adjustment</b>	\$8,000,000 Leased fee
<b>Adjusted Price</b>	\$23,300,000 Fee Simple

**Land Data**

<b>Land Size</b>	0.378 Acres or 16,479 SF
<b>Zoning</b>	C-3-C

**General Physical Data**

<b>Building Type</b>	Single Tenant
<b>Net Rentable SF</b>	104,746
<b>Construction Type</b>	Concrete, glass & metal Class B office
<b>Stories</b>	8
<b>Year Built</b>	1982
<b>Condition</b>	Below Average

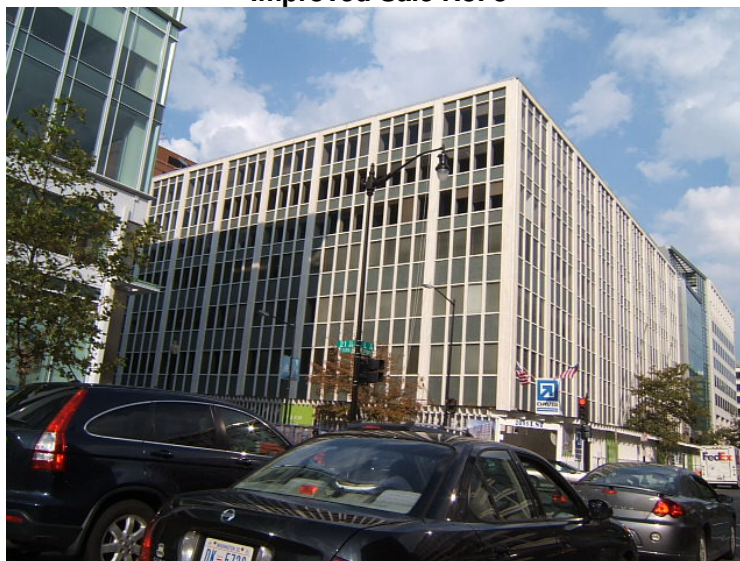


**Improved Sale No. 2, Cont.****Indicators**

<b>Sale Price/ SF</b>	\$146.07
<b>Occupancy at Sale</b>	0%

**Remarks**

This is an older Class B office building located on 1<sup>st</sup> Street, NW, between D and E Streets, in the Capitol Hill submarket of Downtown Washington. The site is convenient to Union Station, the US Capitol Building, and the House and Senate office buildings (particularly the Senate). The buyer first acquired the leasehold interest in the property subject to a ground lease which had 45 years remaining in the term, for \$15,300,000. The subsequent transaction, for \$8,000,000, occurred on January 11, 2011, and represented the acquisition of the leased fee interest from the leasehold landlord. The two purchases resulted in acquisition of the fee simple interest. The developer expects to complete renovations in 2013, and office space for occupancy at that time is offered at \$48.00 to \$52.00 per s.f, FS. The building advertises 95 below grade parking spaces.

**Improved Sale No. 3****Property Identification**

<b>Record ID</b>	3617
<b>Property Type</b>	Office, Shell Building
<b>Address</b>	2055 L Street, NW, Unit PU-501, Washington, Washington D.C. 20036
<b>Tax ID</b>	Square 100, Lot 121, Unit PU-501 (AKA Lot 2005)

**Sale Data**

<b>Grantor</b>	Verizon Washington, DC Inc.
<b>Grantee</b>	AGMR 2055 L Owner LLC
<b>Sale Date</b>	December 21, 2010
<b>Deed Book/Page</b>	2010-113980
<b>Conditions of Sale</b>	Condominium
<b>Verification</b>	Broker, Buyer

<b>Sale Price</b>	\$12,750,000
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**Land Data**

<b>Zoning</b>	C-3-C
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**General Physical Data**

<b>Building Type</b>	Single Tenant
<b>Net Rentable SF</b>	102,854
<b>Construction Type</b>	Stone panel and Glass Class B Office
<b>Stories</b>	7
<b>Year Built</b>	1963
<b>Condition</b>	Below Average

**Indicators**

<b>Sale Price/ SF</b>	\$123.96
<b>Occupancy at Sale</b>	2.7%

**Improved Sale No. 3, Cont.****Remarks**

This represents the sale of a portion of an existing 226,522 s.f. building located in the West End submarket of downtown Washington, DC, at the intersection of 21<sup>st</sup> and L Streets, NW. The building was owned by Verizon, which retained ownership of a portion of the 1<sup>st</sup> floor, and the entire 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> floors. The buyer, Monument Realty, purchased a leased retail unit on the first floor (2,742 s.f.), and the 5<sup>th</sup> through 7<sup>th</sup> floors. The total square footage acquired by Monument was reported to be 102,854 s.f., inclusive of the first floor retail space. The building had been divided into two condominiums, with the Monument purchase representing a single unit. In addition to renovating the interior of the upper floors, which had been used to house telecommunication equipment, the buyer is required to complete a variety of improvements to the exterior and building systems which will benefit the entire building, including the 123,668 s.f. retained by Verizon.

The buyer has commenced renovations, and is advertising that space will be available for occupancy at the beginning of 2012, at advertised rents of \$46.00 per s.f., FS. The developer advertises a parking ratio of 1.0/1,000 s.f.

**Improved Sale No. 4****Property Identification**

<b>Record ID</b>	3618
<b>Property Type</b>	Office, Shell Building
<b>Address</b>	624 9 <sup>th</sup> Street, NW, Washington, Washington D.C. 20001
<b>Tax ID</b>	Square 376, Lot 68

**Sale Data**

<b>Grantor</b>	YWCA of National Capitol Area
<b>Grantee</b>	RP MRP 900 G, LLC
<b>Sale Date</b>	March 19, 2010
<b>Deed Book/Page</b>	2010-024723
<b>Property Rights</b>	Fee simple
<b>Financing</b>	Cash
<b>Verification</b>	Buyer; CoStar

<b>Sale Price</b>	\$21,000,000
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**Land Data**

<b>Land Size</b>	0.298 Acres or 12,998 SF
<b>Zoning</b>	C-4

**General Physical Data**

<b>Building Type</b>	Single Tenant
<b>Net Rentable SF</b>	93,553
<b>Construction Type</b>	Concrete and Glass Class B Office
<b>Stories</b>	8
<b>Year Built</b>	1981
<b>Condition</b>	Below Average

**Improved Sale No. 4, Cont.****Indicators**

<b>Sale Price/Net Rentable SF</b>	\$224.47
<b>Occupancy at Sale</b>	80%

**Remarks**

This building was originally constructed by and for the YWCA, and had office space available for tenants with a separate entrance. The building was reported to be about 80% leased at the time of sale, and the existing tenants (including YWCA on a lease-back basis) would not be retained, but would produce interim income prior to redevelopment. At the time of sale, the owners planned to do a complete renovation of the existing building, but have also considered removing the building in order to redevelop the site. All of the existing leases would expire by December 2012, at which time redevelopment is planned to commence. The Costar listing for this building does not indicate the availability of on site parking.

**Improved Sale No. 5****Property Identification**

<b>Record ID</b>	3619
<b>Property Type</b>	Office, Shell Building
<b>Address</b>	200 I Street, SE, Washington, Washington D.C. 20003
<b>Tax ID</b>	Square 766, Lots 21, 36, 37 and 831

**Sale Data**

<b>Grantor</b>	225 Virginia Ave, LLC
<b>Grantee</b>	DC Office of Property Management
<b>Sale Date</b>	October 14, 2009
<b>Deed Book/Page</b>	2009-114832
<b>Verification</b>	Buyer; Current Leasing Rep.

<b>Sale Price</b>	\$85,200,000
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**Land Data**

<b>Land Size</b>	2.131 Acres or 92,817 SF
<b>Zoning</b>	C-M-3

**General Physical Data**

<b>Building Type</b>	Single Tenant
<b>Net Rentable SF</b>	421,017

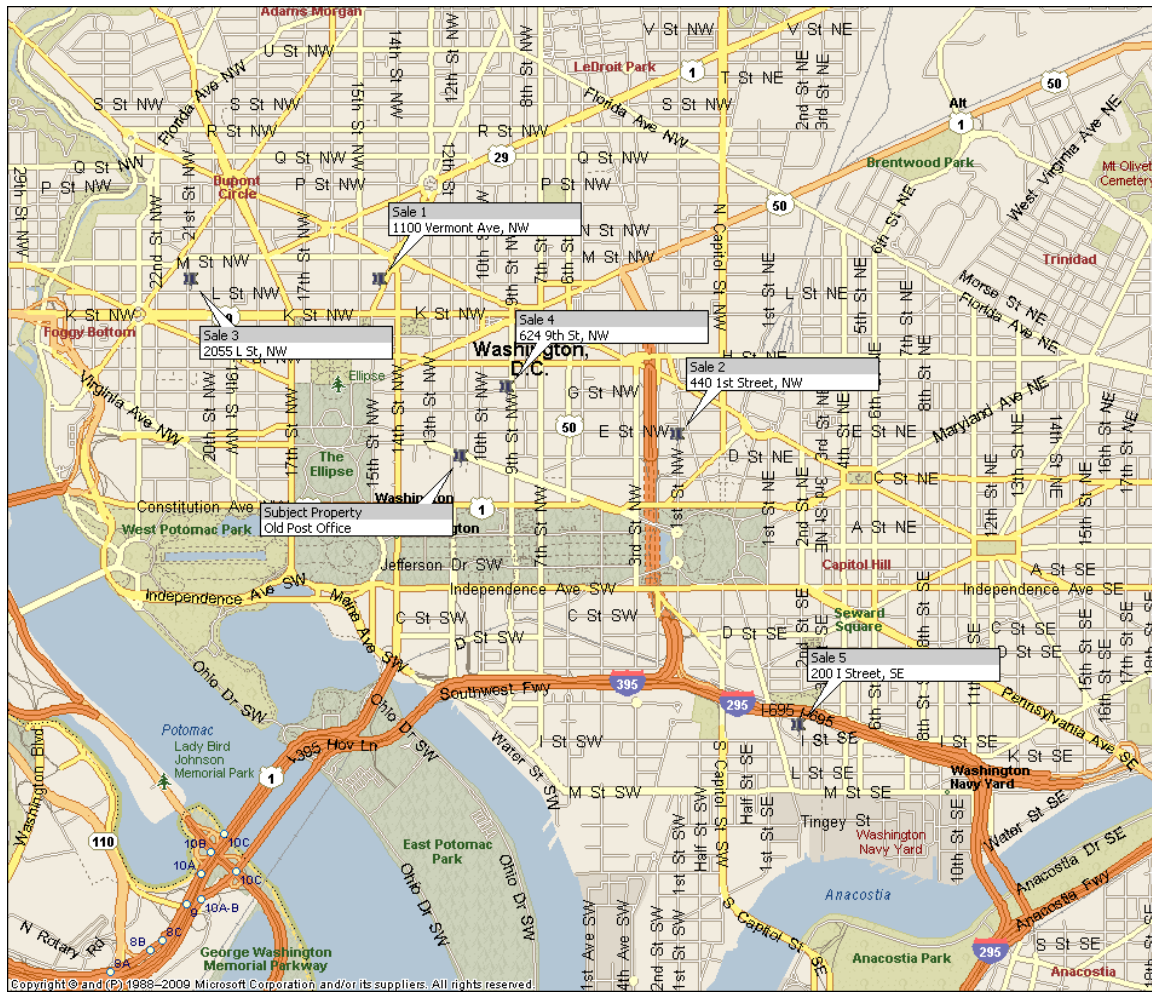
<b>Construction Type</b>	Concrete & Glass Industrial, Office Conversion
<b>Stories</b>	5
<b>Year Built</b>	1959
<b>Condition</b>	Below Average

**Indicators**

<b>Sale Price/ SF</b>	\$202.37
<b>Occupancy at Sale</b>	0%

**Improved Sale No. 5, Cont.****Remarks**

This building was formerly a newspaper printing plant for the Washington Post, which disposed of it in 1999. The entity which purchased the building from the Post later master leased the property for an initial 30-year period to a telecom developer, which subsequently renovated the building for sublease to telecom tenants. The telecom building had difficulty attaining full occupancy, however, and in 2006 the entire building was sub-leased to the District of Columbia. The District initially planned to perform additional renovations to convert parts of the building to office space, and maintain other areas as warehouse space. These renovations never took place, however, and the District ultimately exercised an option in the sub-lease to acquire the property for the recorded price. As such, the sale was a combination of a transfer of the landlord's fee simple interests, and an assignment of the lease interests of the original master tenant. The District is now in the process of renovating the building for a combination of museum and office space. A ground floor art gallery will house the art collection of the DC Commission on the Arts and Humanities, and a number of DC agencies will occupy office space in the building. The site is within walking distance of the Capitol and several Metro stations. Of the total 420,000 +/- square feet of building area, about 70,000 s.f. are in the basement, and this area will most likely be converted to a parking garage.



## COMPARABLE BUILDING SHELL SALES



**SALES COMPARISON ANALYSIS  
OLD POST OFFICE BUILDING - DC0029ZZ  
WASHINGTON, DC  
SEPTEMBER 2011**

	<b>Comp 1</b>	<b>Comp 2</b>	<b>Comp 3</b>	<b>Comp 4</b>	<b>Comp 5</b>
<b>Property/Address</b>	1100 Vermont Ave, NW Washington, DC	440 1st Street, NW Washington, DC	2055 L Street, NW Washington, DC	624 9th St, NW Washington, DC	200 Eye St, SE Washington, DC
<b>Sale Date</b>	Apr-11	Dec-10	Dec-10	Mar-10	Oct-09
<b>Net Rentable Area (SF)</b>	79,510	104,746	102,854	93,553	421,017
<b>Land Area (SF)</b>	6,978	16,479	Condo-NA	12,998	92,817
<b>Floor Area Ratio</b>	11.39	6.36		7.20	4.54
<b>Year Built/Renovated</b>	1961	1982	1963	1981	1959
<b>Quality/Condition</b>	Below Average	Below Average	Below Average	Below Average	Below Average
<b>Parking</b>	2.5 per 1,000 sf	0.91 per 1,000 sf	1.0 per 1,000 sf	None	Bsm't Conv. To Gar.
<b>Consideration</b>	\$14,200,000	\$23,300,000	\$12,750,000	\$21,000,000	\$85,200,000
<b>Price Per S.F. (NRA)</b>	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
<b>Occupancy Rate</b>	0.0%	0.0%	2.7%	80.0%	0.0%
<b>Transaction Adjustments</b>					
Property Rights Conveyed	0%	0%	0%	0%	0.00%
Adjusted Price	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
Financing	0%	0%	0%	0%	0%
Adjusted Price	\$178.59	\$222.44	\$123.96	\$224.47	\$202.37
Conditions of Sale	10%	0%	25%	0%	0%
Adjusted Price	\$196.45	\$222.44	\$154.95	\$224.47	\$202.37
<b>Time Adjustments</b>	0%	5%	5%	10%	15%
Adjusted Price	\$196.45	\$233.57	\$162.70	\$246.92	\$232.72
<b>Comparative Adjustments</b>					
Location/Visibility/Views	5%	10%	10%	5%	15%
Physical Characteristics					
Age & Condition	0%	0%	0%	0%	0%
Building Quality	10%	10%	15%	10%	20%
Building Size	-5%	-5%	0%	-5%	5%
Space Layout	-10%	-10%	-10%	-10%	-10%
Parking	-5%	-5%	-5%	0%	-5%
Use/Zoning	5%	5%	5%	5%	5%
Economic Characteristics	0%	0%	0%	-10%	0%
Non-Realty Components	0%	0%	0%	0%	0%
Net Comparative Adjustment	0%	5%	15%	-5%	30%
<b>Adjusted Price Per S.F.</b>	\$196.45	\$245.24	\$187.11	\$234.57	\$302.54
<b>Average Adjusted Unit Price</b>		\$233.18			
<b>Median Adjusted Unit Price</b>		\$234.57			
<b>Indicated Subject Value</b>		<b>\$240.00</b>			
Subject's Size		252,061			
Indicated Value		\$60,494,640			
<b>Rounded</b>		<b>\$60,500,000</b>			

**ADJUSTMENT OF COMPARABLE IMPROVED SALES****Transaction Adjustments**

Property Rights Conveyed: The comparables must first be adjusted to reflect differences in the property rights conveyed between buyer and seller. Most transfers of real estate convey fee simple, leased fee, or leasehold estates. To the extent that there are differences between the estate being appraised and that transferred in a comparable, an adjustment may be required. Adjustments in this category also recognize the impact on price of transfers of less than 100% ownership of the property. All of the sales involved purchase of a fee simple or leased fee analysis limited only by existing space leases. Sale 2 was purchased in two stages, one transaction for the leasehold interest followed by a second transaction for the leased fee interest under a ground lease. We have combined both purchases, which is reflective of the value of the entire fee simple interest.

Financing Adjustments: Financing arranged by the seller, in the form of assumed financing or a note accepted for part of the purchase price, may affect the price paid for the property. Common examples include: 1) the provision of seller financing when other borrowing options are not available, which tends to elevate price; 2) Seller or assumed financing at favorable terms, which also tends to elevate price; and 3) Existing financing at unfavorable terms which is required, typically by an existing lender, to transfer with the property, which tends to depress price. None of the properties were known to include seller or assumed financing which differ significantly from market terms; No adjustments were therefore required.

Conditions of Sale: Unusual conditions affecting the transaction may result in a price which is higher or lower than that expected under a normal, arms length transfer. Common examples include a seller under pressure to raise capital or unusual relationships between the buyer and the seller. Sale 1 was acquired at auction due to foreclosure. When properties are sold at a foreclosure auction, they may be subject to additional costs due to buyer's premiums paid to the auctioneer, and prices may be below market due to inadequate marketing effort. Although this property is very well located, its price per square foot was closer to the low end of the range indicated by the comparables. We have applied an upward adjustment to reflect these factors. Sale 3 involves the acquisition of the top three floors of an office building along with a small first floor retail space, which had been subdivided into a condominium. The seller, Verizon, had used the entire building to house telecommunications equipment, and would continue to do so on the lower four floors of the building. The buyer was required to perform base building upgrades to the exterior, mechanical system, and lobby, which would benefit the entire building. This most likely had a downward impact on the price paid for the buyer's condominium, and we have applied an upward adjustment which would reflect the need to spend approximately \$25 per square foot on base building improvements which would benefit

the seller's space. No adjustments were required for the remaining comparables.

### **Market Conditions Adjustments**

Changes in Market Conditions: Over time, changing market conditions affect the pricing of real estate. Each sale must be adjusted to reflect these changes between the date of sale and the date of the appraisal. Sale 1 is reflective of current market conditions, having sold earlier in 2011. Sales 2 and 3 were transferred in late 2010, and required a slight upward adjustment to reflect the decline in office capitalization rates since that time. Sale 4 transferred earlier in 2010, and required a greater upward adjustment. Sale 5 transferred in late 2009, nearly two years ago, and overall cap rates for Washington, DC office buildings have declined substantially since that time (7.11% PwC avg in 4<sup>th</sup> Qtr 2009, vs. 5.98% 3<sup>rd</sup> Qtr 2011) resulting in strong increases in office sale prices. This sale was adjusted upward by 15%.

### **Comparative Characteristic Adjustments**

Location & Visibility: The subject is located in the East End on Pennsylvania Avenue. It has a corner location and excellent visibility and access to Metro. Sales 1 and 4 have corner locations in the East End, and were adjusted upward slightly to reflect the subject's Pennsylvania Avenue frontage. Sales 2 and 3 are located in the Capitol Hill and West End submarkets, respectively, where average office rents are somewhat lower than those in the East End. These sales received stronger upward adjustments. Finally, Sale 5 is located in the Capitol Riverfront, which is secondary to more traditional downtown locations. This sale received the strongest upward adjustment.

Physical Characteristics: These adjustments reflect differences in site characteristics and an array of building factors, including age/condition, size, parking availability and income characteristics.

**Age/Condition:** All of the sales were purchased for a major renovation, which is comparable to our expectations for the subject. No adjustments were necessary.

**Building Quality:** Upon completion of the renovation, the building will offer high quality interior space, which is similar to the plans for the comparables. However, the subject is an iconic historic building, which includes a major tourist attraction in the Clock Tower, and also has superior architectural characteristics. All of the comparables were adjusted upward for this factor. Sale 5 was adjusted upward more strongly than the remaining comparables, since about 20% of its space was located in a basement area which was unfinished, and was planned for conversion to a parking garage.

**Building Size:** The subject has been analyzed based on our estimate of effective net rentable area, which is 252,061 square feet. Since the analysis reflects the value of a proposed renovation project, larger buildings may result in more complicated projects, which can require longer lease-up periods, delaying the owner's ability to enjoy the financial benefits of the renovation. Sales 1, 2, 3, and 4 are much smaller than the subject. Sales 1, 2, and 3 were adjusted downward for this factor, however Sale 3 was not adjusted due to its higher level of complexity as a condominium. Sale 5 is much larger than the subject, and received an upward adjustment.

**Space Layout:** The subject building includes a very large open atrium which results in very good visual appeal from the interior, but also results in inefficient floor plans that preclude large tenants from leasing large blocks of well organized continuous space. A full floor tenant could lease nearly 30,000 square feet, however it is organized in a "race track" configuration which is inefficient from a space planning perspective. Each of the comparables was adjusted downward to reflect this factor.

**Parking:** The subject has only seven surface spaces which generate a small amount of revenue; the parking ratio is 0.03 per 1,000 square feet of rentable area. Garage parking provides a modest amount of additional net income to CBD office buildings. Small downward adjustments were made to Sales 1, 2, 3 and 5 for their superior parking ratios.

Use / Zoning: The subject includes a substantial amount of below grade retail space, which adds substantially to the property's net operating income. Sales 1, 2, 3, and 4 are also located in areas which would generate demand for retail space, but in these buildings the retail space would be located on the first floor, supplanting office space. The subject's basement space is estimated to be capable of generating a substantial amount of income, which increases potential gross rent by about 7%. This is a greater than normal impact for basement space, resulting in an upward adjustment to these sales. Sale 4 is not located in an area that would generate substantial demand for retail, and will probably be limited to office use. However, since we have already made a substantial upward adjustment to this comparable for location, further upward adjustment for above grade retail potential is not believed to be necessary. Nevertheless, the adjustment for the value of the subject's below grade space is still applicable.

Economic Characteristics: These adjustments include attributes of a property that affect its current and future income stream, primarily vacancy at the time of sale, durability of existing income, and expense ratios. The subject is appraised as though it will be taken over by a private developer, which would fully renovate the property and subsequently offer it for lease

to the general office and retail market. Sales 1, 2, 3, and 5 were vacant or largely vacant at the time of sale, and no adjustments were needed. Sale 4 was purchased with a sale/leaseback from the original owner, and there were also a number of other tenants which were expected to remain in the property and continue to generate income during the planning period. This sale required a downward adjustment.

Non-Realty Components of Value: If the subject or the comparables include personal property, business concerns, or other intangible elements which do not constitute real estate, these items must be considered in this analysis. Certain property types, such as hotels or restaurants, typically include personal property as part of a transaction. No personal property is included in the subject or in the comparables, and no adjustments are necessary.

## **Conclusion**

The adjustments and their resulting indications are summarized on the preceding table. After adjustments, the sales indicate a range of \$187.11 to \$302.54 per square foot, with an average of \$233.18 per square foot.

We have placed the least amount of emphasis on Sales 1, 3, and 5. Sale 1 was a recent foreclosure auction, and while basic aspects of the sale were confirmed and the deed was clear that the buyer was the high bidder at the price of \$14,200,000, the buyer would not respond to questions about additional potential costs, such as auction premiums or assumed debt. While we do not believe that there was any existing debt that was assumed as part of the auction, the lack of specificity makes this sale somewhat less reliable. Sale 3 was the purchase of a component of a building in condominium form, and the buyer was not able to specify the cost of base building improvements which would benefit the owner of the remaining space. While we adjusted for this factor, we would prefer greater certainty regarding the extent of these costs. Finally, Sale 5 was purchased by the District of Columbia, which had the property under lease at the time. The price is substantially higher than the remaining comparables, and it is possible that the buyer, being a government entity, was less sensitive to market considerations than would be an investor.

The remaining two sales adjusted to \$245.24 (Sale 2) and \$234.57 (Sale 4) per square foot, which is within the range indicated by all five comparables, and slightly higher than the average. As a result, we have concluded to a value for the subject that at \$240 per square foot. Applied to the subject's 252,061 square feet of effective net rentable area available for renovation, the indicated of the Old Post Office, in its as-is condition, based on our judgment of highest and best use, is \$60,494,640, rounded to **\$60,500,000**.

**VALUE INDICATION – ANNEX SITE**

In the Highest and Best Use analysis regarding the Annex site, we arrived at the conclusion that the value of this portion of the property is maximized by removing the existing improvements to allow the site to be redeveloped with a new office building.

In the analysis of Legal Permissibility, discussed in the HBU section, we estimated the building footprint which would be available to a developer of the Annex Site. Allowing a 50 foot setback from the IRS building and a 30 foot setback from the Old Post Office building, it would appear that a footprint of 15,510 square feet. If the setbacks from the IRS building were reduced to 30 feet, the footprint could potentially expand to 23,850 square feet.

In all likelihood, a buyer of the site would structure a contract which would be contingent on approval for redevelopment, in which the price paid for the site would depend on the success of the redevelopment approval effort, and the amount of square footage ultimately approved for development. For this appraisal, however, we are estimating as-is value, and a selection of an appropriate basis for value must be made. Since a buyer would be expected to recognize both the potential for maximal development of the site, as well as the risks associated with approval, it is reasonable to base an estimate of as-is value on a figure between the low and high estimates of development density. Therefore, we have based our estimate of value for the annex site on a potential building footprint of 20,000 square feet. Since we also estimated that the maximum building height would permit eight floors, total developable density on the Annex site is estimated at 160,000 square feet.

In Part 1 of this report, we estimated the value of FAR density at the Annex site at \$175 per FAR foot. However, this estimate did not recognize the impact of the costs and risks associated with gaining development approval for this site. The Annex site is not zoned, so the approval process would involve a variety of District and Federal agencies, many of which would have competing agendas regarding the density of the site, with some most likely preferring no development whatsoever. It is likely, therefore, that an effort to gain approval for development would be a lengthy and costly process, and its outcome would be uncertain. The best case scenario would most likely be approval to develop a building with a 20,000 s.f. or larger floor print, while the worst case would be denial of a request to build any new structure whatsoever. In the worst case scenario, the developer would be left with the alternative to redevelop the existing Annex building, which is only about 100,000 square feet, with approximately 1/3 of that space being below grade. To reflect the impact of the time, costs, and risks associated with approval, we have applied an additional discount of 20% to our prior estimate of \$175 per FAR foot, to reflect an as-is value of the site with no approval

contingencies. This would indicate a value of \$140 per FAR foot, which applied to the potential 160,000 s.f. density, would indicate a total value for the site of **\$22,400,000.**

## **RECONCILIATION AND CORRELATION**

During the process of reconciling the indications of value derived from the various approaches employed in the appraisal, the appraiser considers the quantity and quality of the information available for use in each approach, as well as the applicability of each approach to the appraisal problem at hand.

### **Old Post Office Building**

During the process of deriving value indications for the subject property, we employed the income approach combined with a residual analysis in the Highest and Best Use section of Part 2, along with a direct sales comparison analysis in the Valuation section of Part 2 (P. 178). The income approach / residual analyses provided the following indications for the subject property, based on future renovation for potential office, hotel, and apartment use:

	<b><u>Value Indication</u></b>
<b>Office Use:</b>	\$75,104,151
<b>Hotel Use:</b>	\$44,120,936
<b>Apartment Use:</b>	\$22,586,799

In the highest and best use analysis, we noted that these indications are not precisely for as-is value, but rather are indications of the potential return available for profit and acquisition of the property for renovation purposes. Since the analysis indicated that the highest potential return for office use, it was determined that office use, with retention of portions of the existing retail operation, was the highest and best use of the subject property in its as-is condition. It was further determined that the highest and best use of the Annex portion of the property was removal of the existing improvements to allow redevelopment of the site.

Our valuation of the property, based on its highest and best use as office space, was based on direct comparison of the subject with sales of other buildings located in downtown Washington, DC, for the purpose of renovation for future office use.

The Sales Comparison Approach is most reliable when a number of confirmed sales of similar properties are available for analysis. Value contributions by standard property components can be easily identified and adjusted for. If the subject property has unique or specialized elements, or if there are substantial variations between the comparables and the subject, the indicated value is less reliable.

A number of recent comparable sales of office shell buildings for renovation purposes in



downtown Washington, DC were available for this analysis. Adequate of detail was available regarding each of the sales, increasing the reliability of the adjustments. With regard to this appraisal, the sales selected provided a good indication of current pricing for this type of property. For the Old Post Office building, this was considered to be the a highly reliable valuation methodology due to the availability of adequate comparable sales. This analysis indicated an as-is value for the subject property of \$60,500,000.

We have also considered the building residual analysis employed in the Highest and Best Use Analysis. For potential office use, which was judged to be the property's HBU, the analysis indicated an amount of \$75,104,151 available for profit and land acquisition. This analysis is not considered to be reliable as direct sales comparison. While it is based on a thorough analysis of future potential market rents, expense recoveries, vacancy and collection losses, and operating expenses, there has been no thorough examination of the building to determine estimated renovation expenses. For a residual analysis of this type, accurate renovation cost estimates are key to deriving an indication of residual value. For this analysis, since no actual renovation cost estimate was available, we utilized indications of new construction cost derived from the Marshall Valuation Service cost manual. While these cost estimates are considered to be adequate to allow a comparison of relative profitability for highest and best use purposes, they are not considered to be adequate to produce a reliable indication of as-is building value based on a residual analysis. Therefore we placed no weight on this analysis in our final estimate of value for the subject property on an as-is basis. We do note, however, that the HBU residual analysis for potential office redevelopment indicates a value of just over \$75,000,000. This is higher than the value indicated by direct sales comparison of office building shells, however it has not been adjusted downward to reflect an amount of entrepreneurial profit that would be required as an incentive for a developer. If this downward adjustment were to be made, it is our opinion that the value indication would be supportive of the indication derived from sales comparison.

## **Annex**

In regard to the Annex, the highest and best use of this portion of the property is judged to be redevelopment of the site. Estimates of land value are most accurate when derived from appropriate comparable sales. Several appropriate sale comparables were available for this analysis, and no other methodology was available which, in our opinion, would improve the reliability of the analysis. Analysis of the comparables resulted in a value indication for the Annex site of \$22,400,000.

**Conclusion**

Based on the considerations and indications outlined above, each component of the property has the following indicated value on an as-is basis:

	<b><u>As-Is Value</u></b>
<b>Old Post Office:</b>	\$60,500,000
<b>Annex Site:</b>	\$22,400,000
<b>Total Indicated Value:</b>	\$82,900,000

Based on these value indications, we estimate the market value as-is of the fee simple interest of the Old Post Office building and Annex, as of September 2, 2011, to be

**\$82,900,000**  
**EIGHTY-TWO MILLION NINE HUNDRED THOUSAND DOLLARS.**

# **ADDENDA**

## **Subject Property Photographs and Floor Plans**



Side view along 12<sup>th</sup> Street, NW



View toward Annex from Penna Ave, NW



Rear view from 12<sup>th</sup> Street



Exterior entrance to Annex

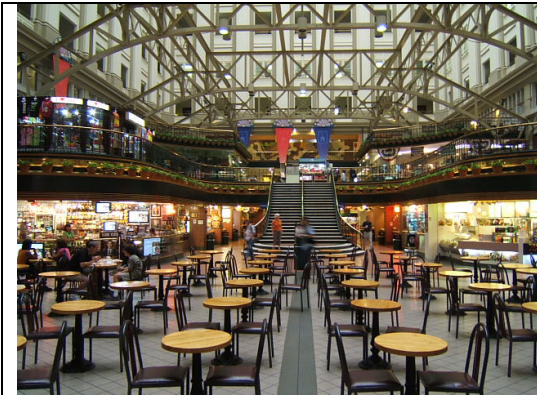


C Street corridor behind Old Post Office

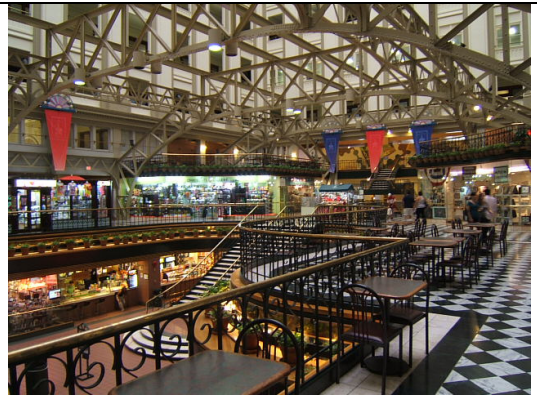


View SE along Pennsylvania Avenue

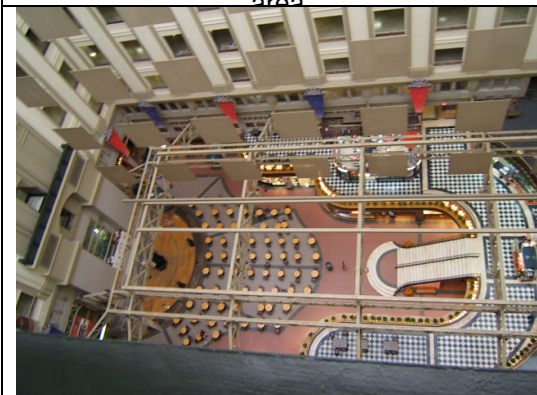




Seating in ground floor retail/food court area



View across first floor retail area



View downward from 9<sup>th</sup> floor via Atrium



Typical corridor



Standard Old Post Office office space



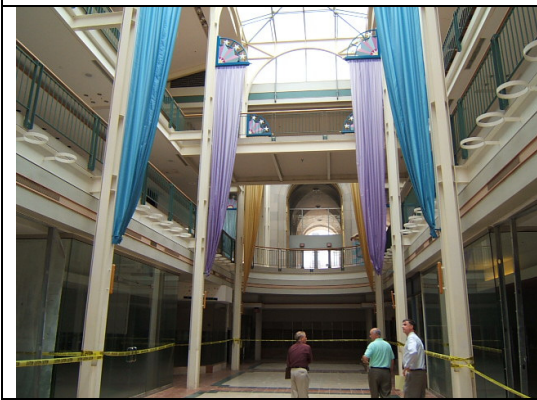
Interior of atrium



Typical restroom in Old Post Office



Architectural detail in corridor/atrium



View of atrium in Annex



Unused retail space in Annex



Second level in Annex



Entrance from Annex into Old Post Office

# **Comparable Photographs Highest and Best Use Analysis**



Office Comparables



Rent 1



Rent 2



Rent 3



Rent 4



Rent 5



Rent 6



Hotel Comparables

	
Hotel 1	Hotel 2
	
Hotel 3	Hotel 4
	
Hotel 5	Hotel 6



Hotel 7



Hotel 8



## Apartment Comparables



Apartment 1



Apartment 2



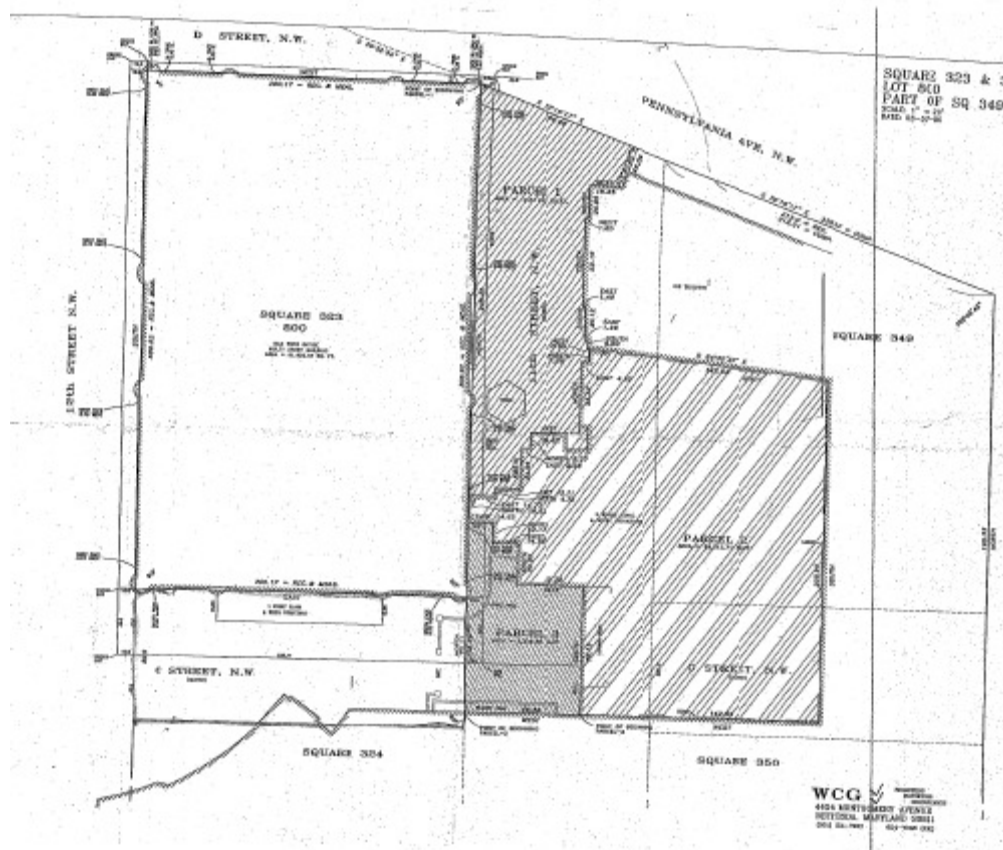
Apartment 3



Apartment 4

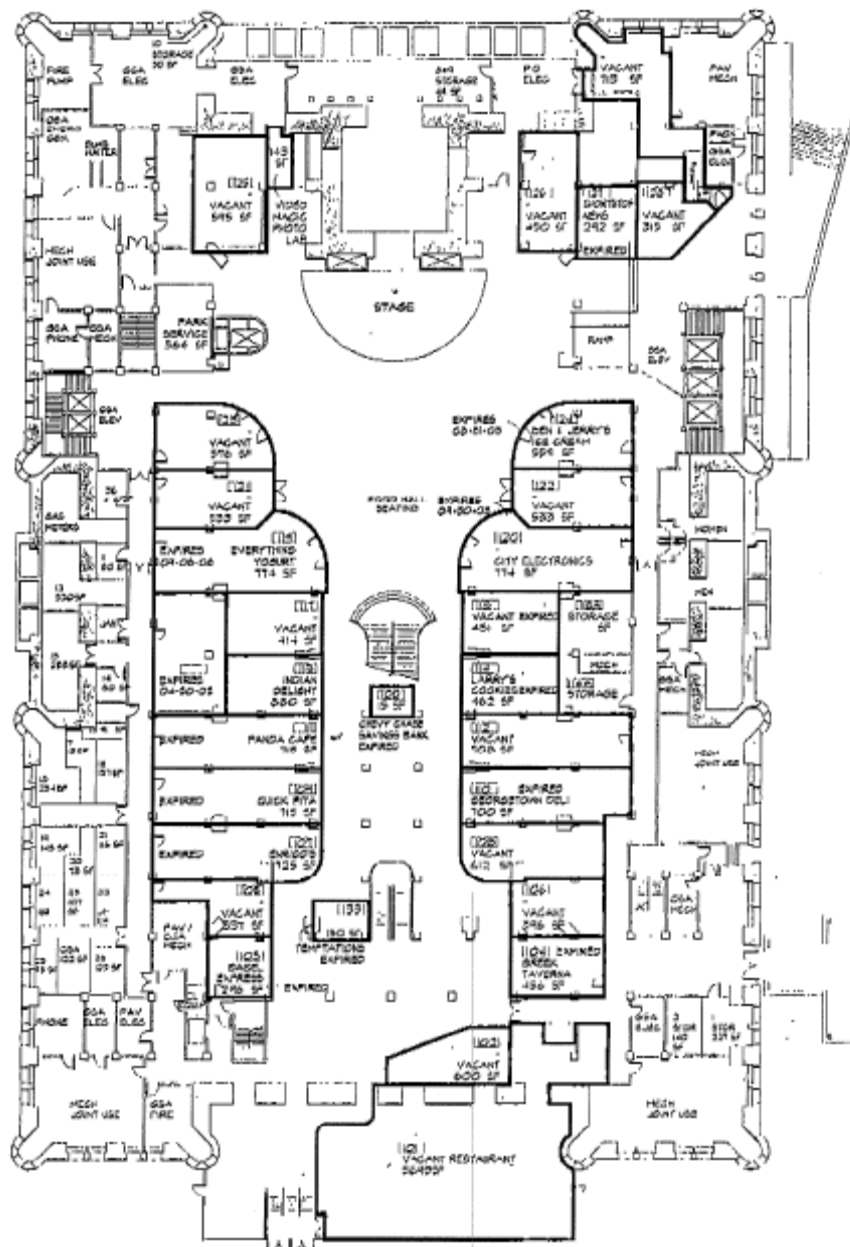


Apartment 5



SITE PLAN

## **OLD POST OFFICE FLOOR PLANS**



FIRST LEVEL

EXISTING LEASE PLAN

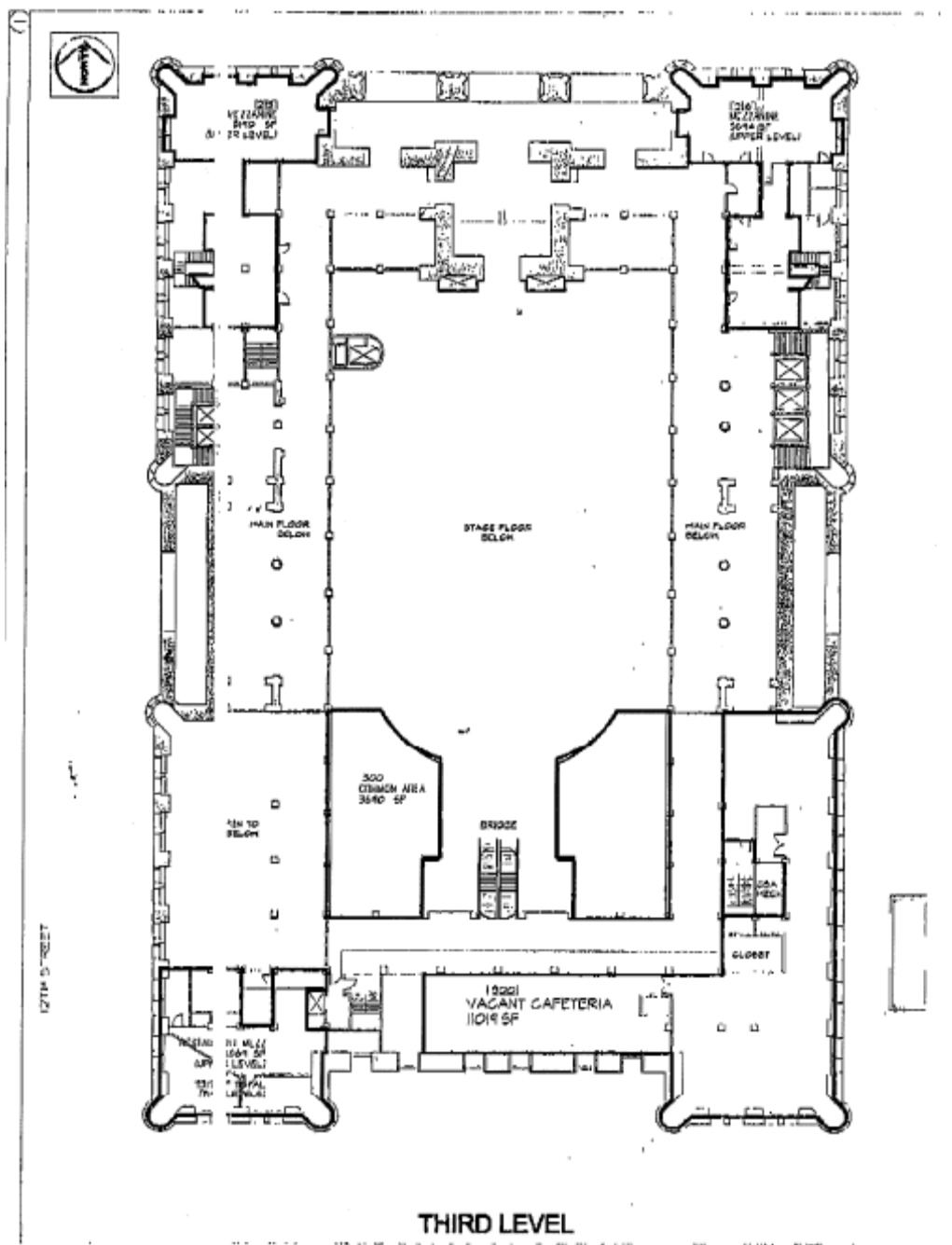
# POST OFFICE PAVILION

1100 PENNSYLVANIA AVENUE, NW  
WASHINGTON, D.C. 20004









**POST OFFICE PAVILION**  
1100 PENNSYLVANIA AVENUE, NW  
WASHINGTON, D.C. 20004

# SECOND FLOOR

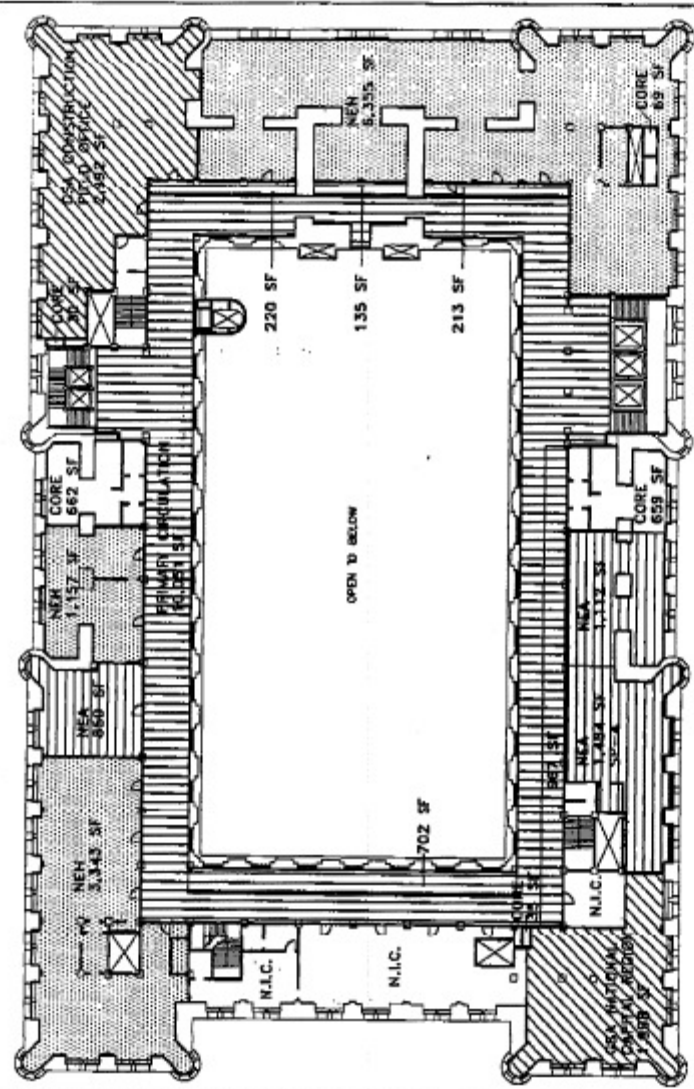
AGENCY	TOTAL BOMA USABLE SOURCE FOOTAGE
NEA	3,446
NEH	10,855
GSA	4,990
CORE	1,453
PRIMARY CIRCULATION	10,031
	23,747

BOMA USABLE SPECIAL SPACE				
OFFICE TYPE	ST-1	SP-2	SP-4	SP-5A
NEA	1,562			1,484
NEH	10,855			
GSA	4,990			

LEGEND:

- PARK SERVICE
- GSA
- NEH
- NEA
- NLS
- SHARED
- NARUC
- DMG
- AQHP
- POAH
- CORE
- CIRCULATION

PECK & PECK & ASSOCIATES  
INTERIOR DESIGN GROUP



TENANT OCCUPANCY PLANS

NOT TO SCALE

SECOND FLOOR

OLD POST OFFICE BUILDING

# THIRD FLOOR

AGENCY	TOTAL BOMA USABLE SQUARE FOOTAGE
NEA	334
NEH	11,889
DOED	9,021
CORE	934
PRIMARY CIRCULATION	7,500

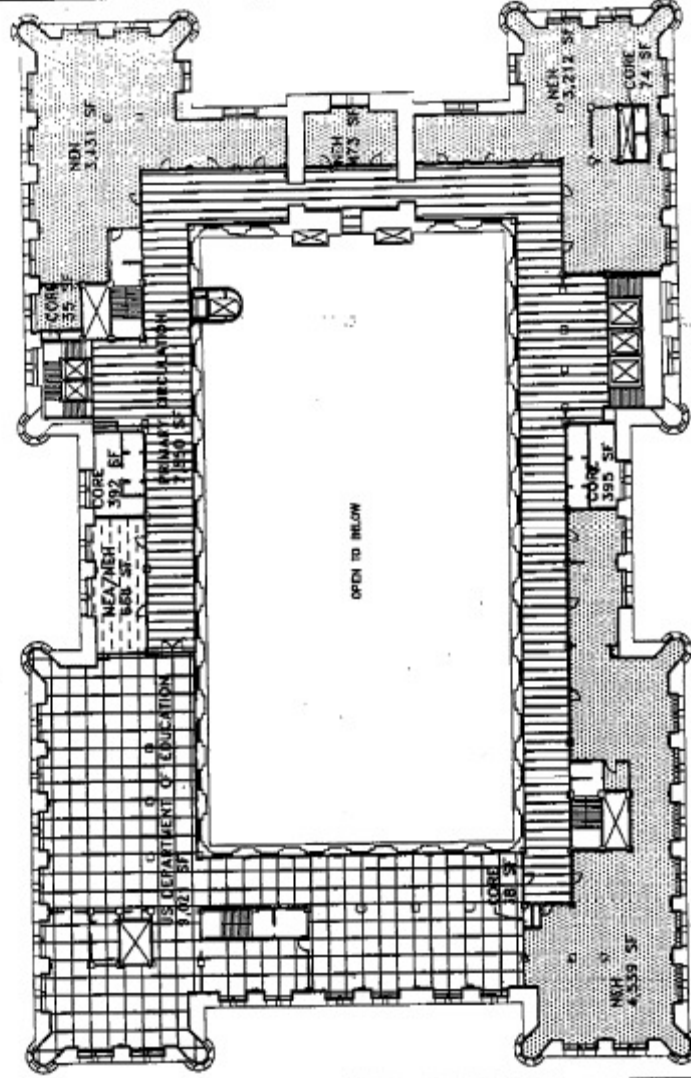
7,500

## BOMA USABLE SPECIAL SPACE

OFFICE TYPE	ST-1	SP-2	SP-4	SP-5A
NEA	334			
NEH	11,889			
DOED	9,021			

	PARK SERVICE		NARIC
	GSA		DOED
	NEH		ACHP
	NEA		PCAH
	IMLS		CORE
	SHARED		CIRCULATION

PECK & PECK & ASSOCIATES  
INTERIOR DESIGN GROUP



OLD POST OFFICE  
PAVILION

THIRD FLOOR

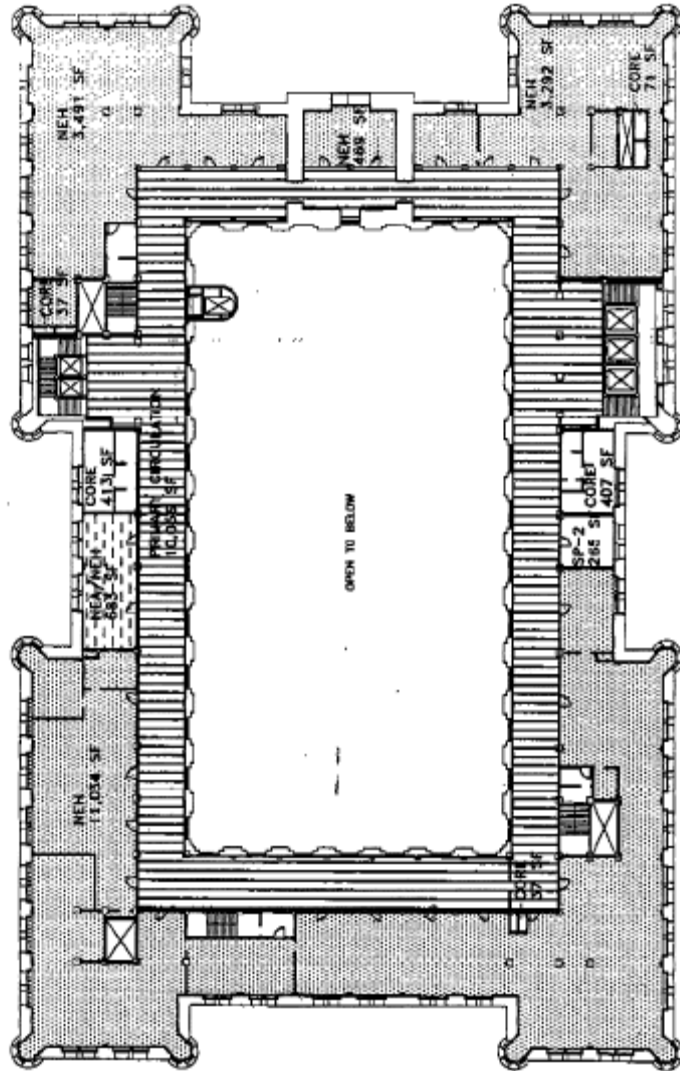
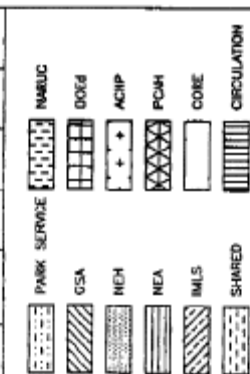
NOT TO SCALE

TENANT OCCUPANCY  
PLANS

## FOURTH FLOOR

AGENCY	TOTAL BOMA USABLE SQUARE FOOTAGE
NCA	342
NEH	18,893
CORE ELEMENTS	965
PRIMARY CIRCULATION	10,056

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
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[illegible]

PAULSON, D. L. 1990.



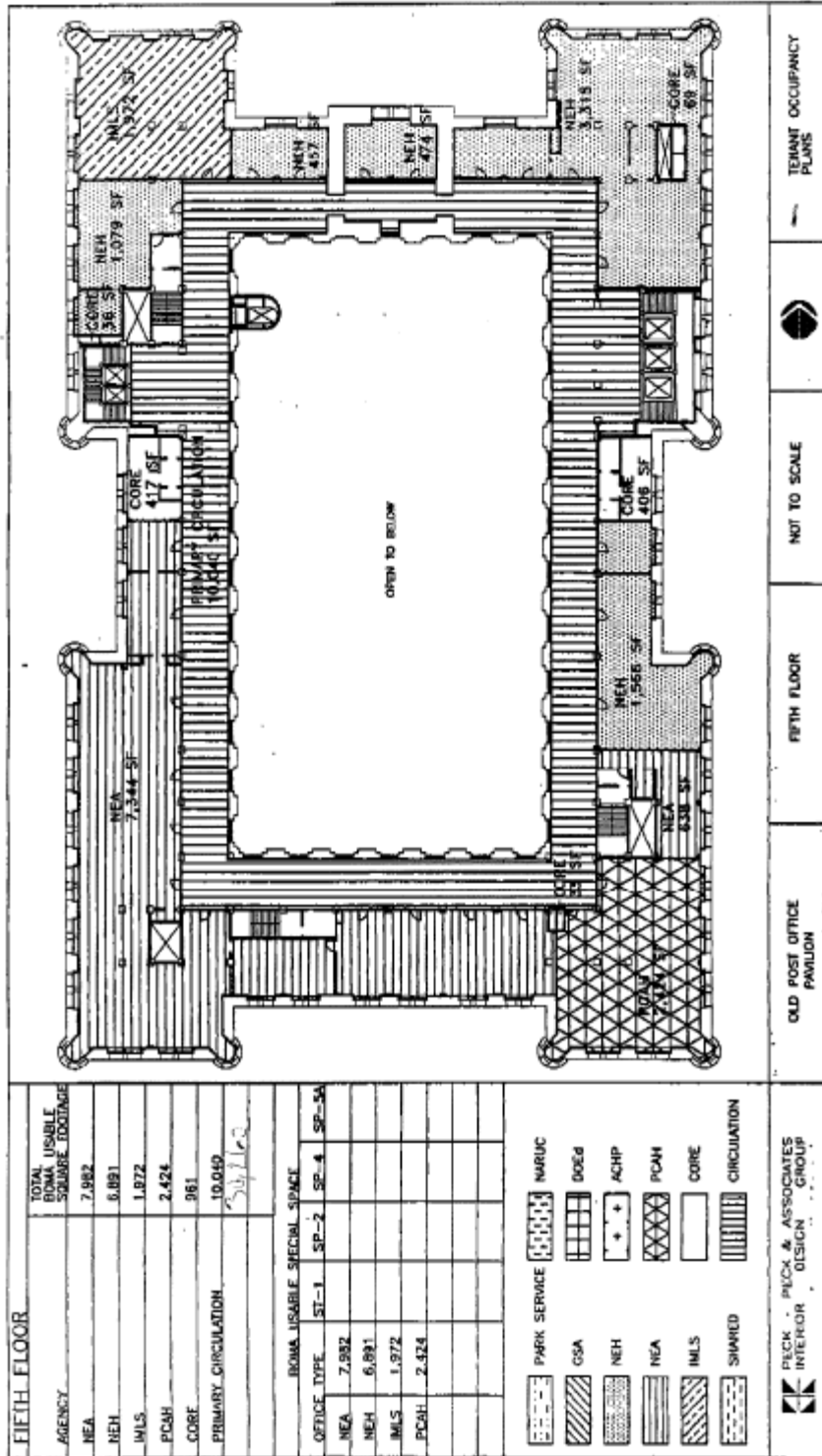
PECK & ASSOCIATES  
INTERIOR DESIGN GROUP

OLD POST OFFICE  
PAVILION

FOURTH FLOOR

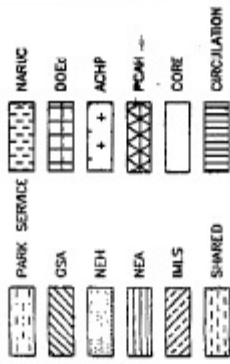
**NOT TO SCALE**

TENANT OCCUPANCY  
PLANS

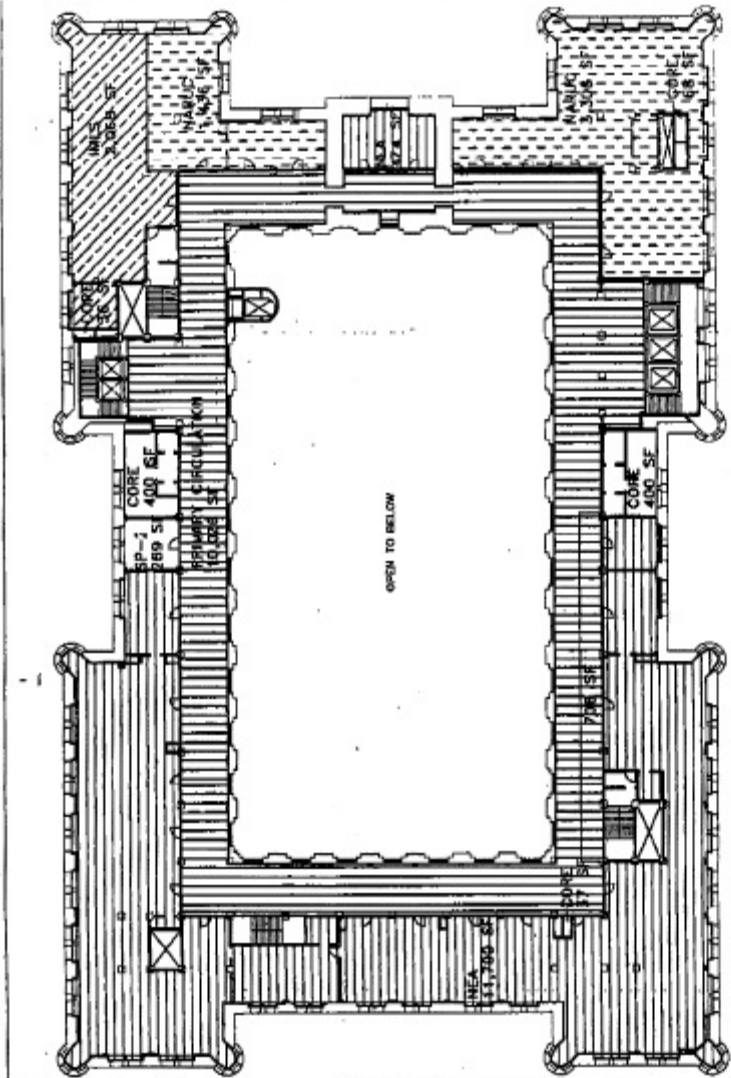


SIXTH FLOOR

AGENCY	TOTAL BOOKS SQUARE FOOTAGE
NEA	12,533
ML 5	2,668
NARUC	4,742
CORE	941
PRIMARY CIRCULATION	10,026
	54.8%

[illegible]

PECK & ASSOCIATES  
INTERIOR DESIGN GROUP

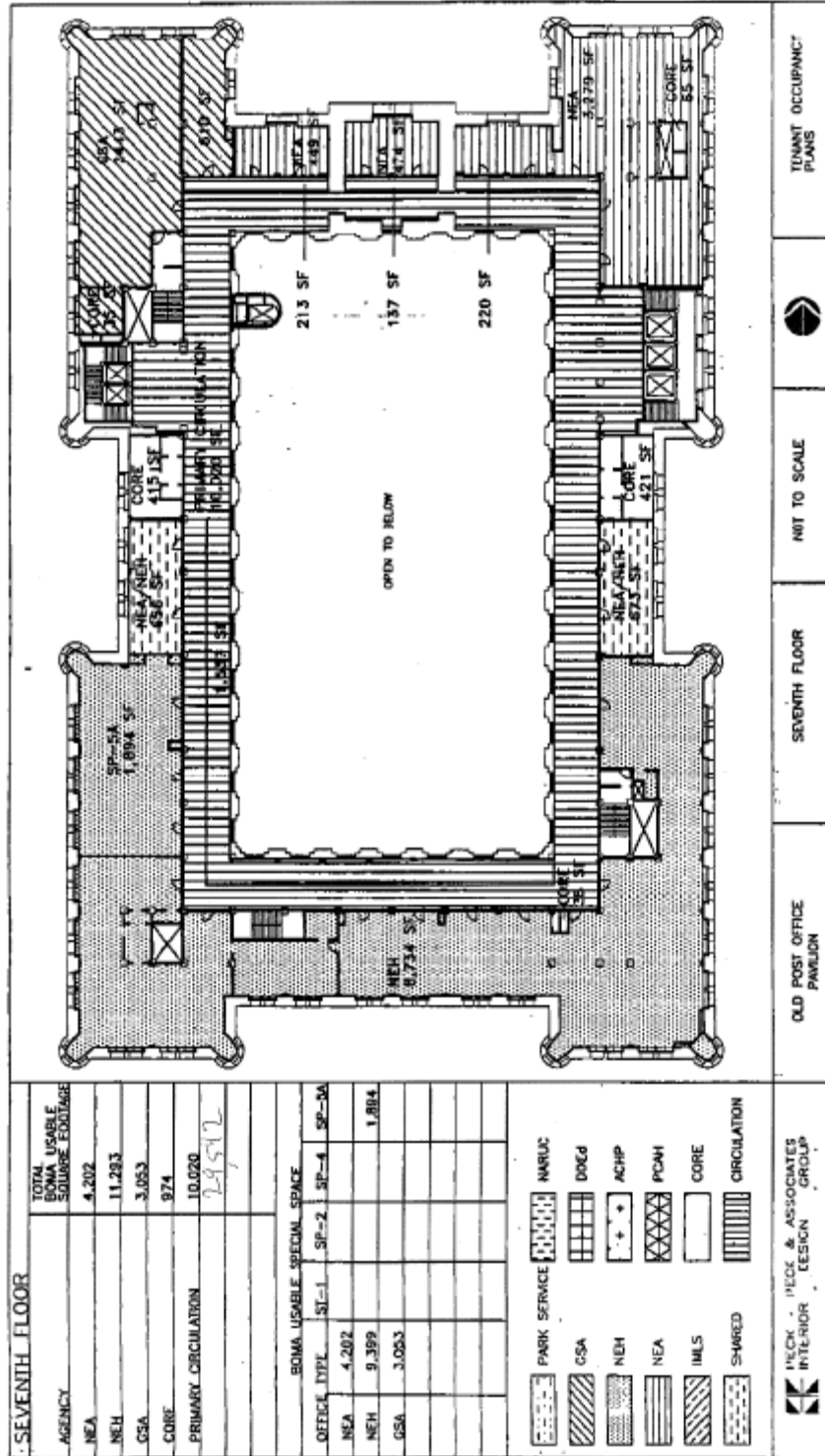


OLD POST OFFICE  
PAVILION

SIXTH FLOOR

NOT TO SCALE

**TENANT OCCUPANCY PLANS**



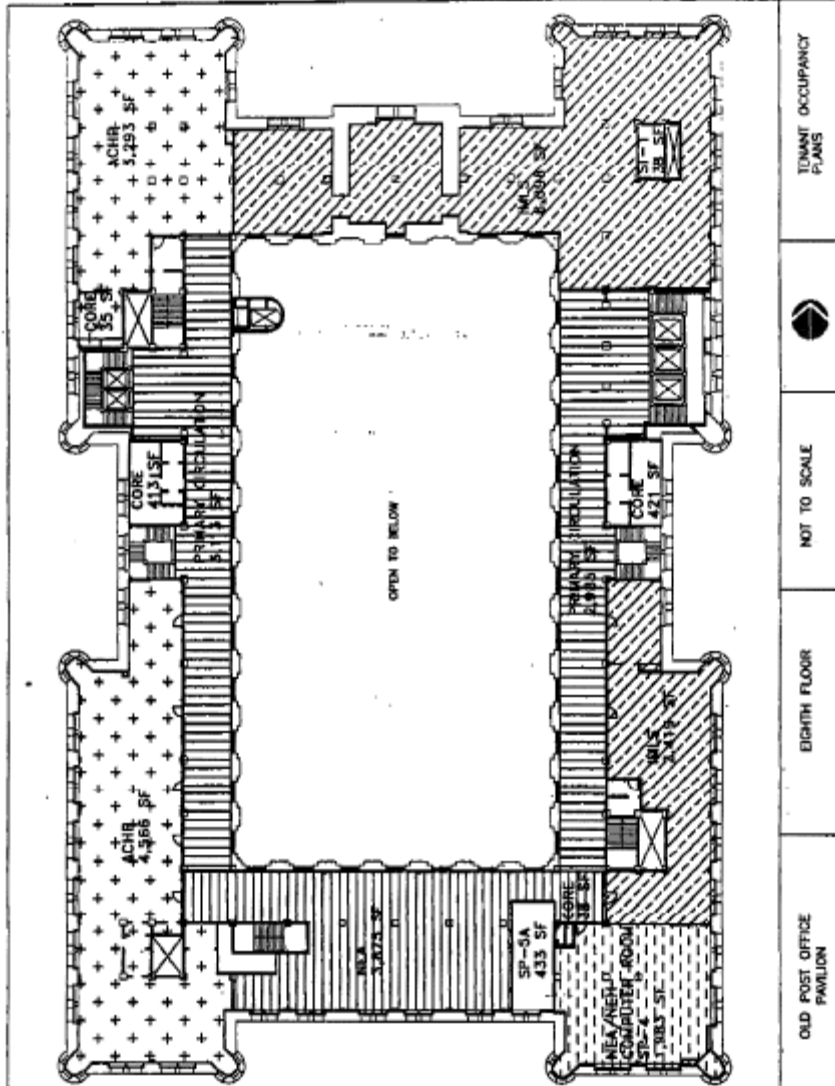
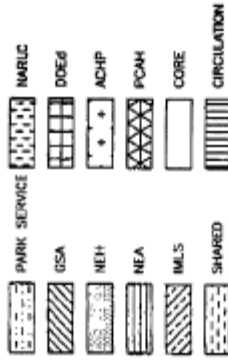
HECK, HECK & ASSOCIATES  
INTERIOR DESIGN GROUP

EIGHTH FLOOR		TOTAL FOOT USABLE SPACE FOOTAGE
AGENCY		
NEA		5,299
NEH		992
ACHP		7,659
NLS		8,655
CORE		907
PRIMARY CIRCULATION		6,088

AGENCY	TOTAL BOMA USABLE SQUARE FOOTAGE
NEA	5,299
NEH	992
ACHP	7,859
NGLS	8,655
CORE	907
PRIMARY CIRCULATION	8,088

ROMA USABLE SPECIAL SPACE				
OFFICE TYPE	ST-1	SP-2	SP-4	SP-5A
NEA	3,875		891	433
NEH			892	
ACUP	7,859			
HAUS	8517	1,38		

OFFICE TYPE	ST-1	SP-2	SP-4	SP-50
NEA	3 875		801	433
NEH			892	
ACHP	7 859			
HAAS	9517	138		



PECK & ASSOCIATES, INC.  
INTERIOR DESIGN GROUP

OLD POST OFFICE

EIGHTH FLOOR

NOT TO SCALE









TOYUNT OCCUPANCY  
P. 101

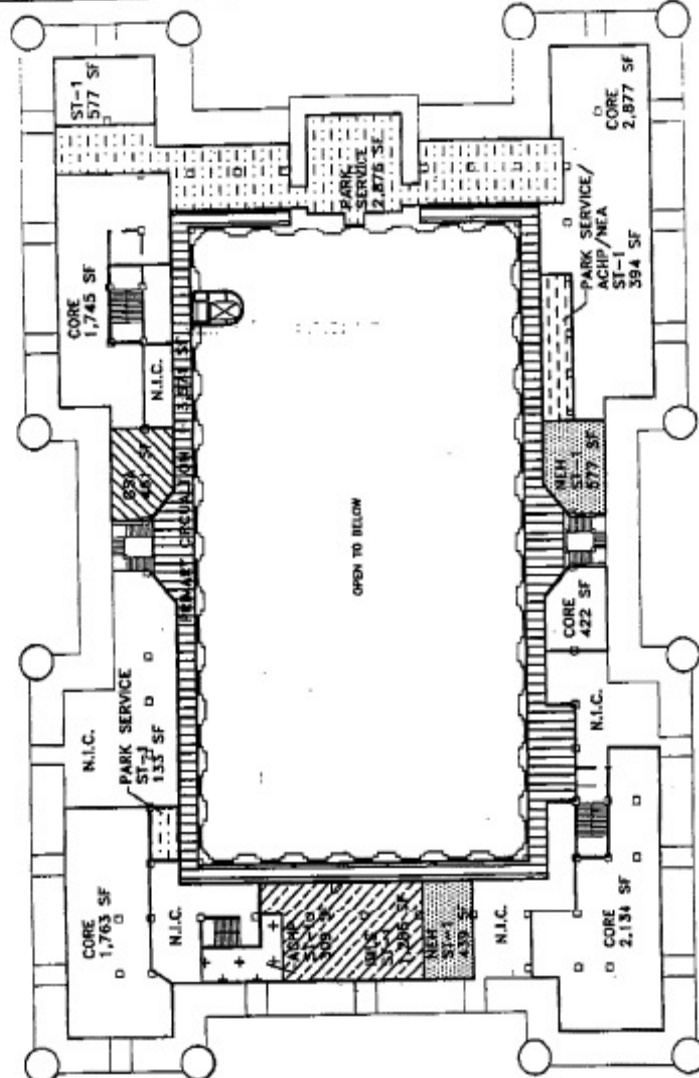


NINTH FLOOR


AGENCY	TOTAL COST \$1000	USABLE COST \$1000	PERCENTAGE USABLE
NEA	131		
NEH	1,016		
GSA	461		
PRISM SERVICE	3,717		
INLS	1,285		
ACIP	440		
COPE	8,941		
PRISM CIRCULATION	3,571		

BOMA USABLE SPECIAL SPACE				
OFFICE TYPE	ST-1	SP-2	SP-4	SP-5A
MEA	131			
NEH	1,016			
GSA PARK STORAGE	461			
	2,870	841		
THLS		1,285		
ACIP		440		

							
PARK SERVICE	MAHIC	DOEL	ACHP	PCAH	CODE		CIRCULATION
CSA	NEH	NEA	IMLS	SHARED			



ADULTO DEL NEGRO



PECK & ASSOCIATES GROUP  
INTERIOR DESIGN

OLD POST OFFICE  
PAVILION

**NINTH FLOOR**

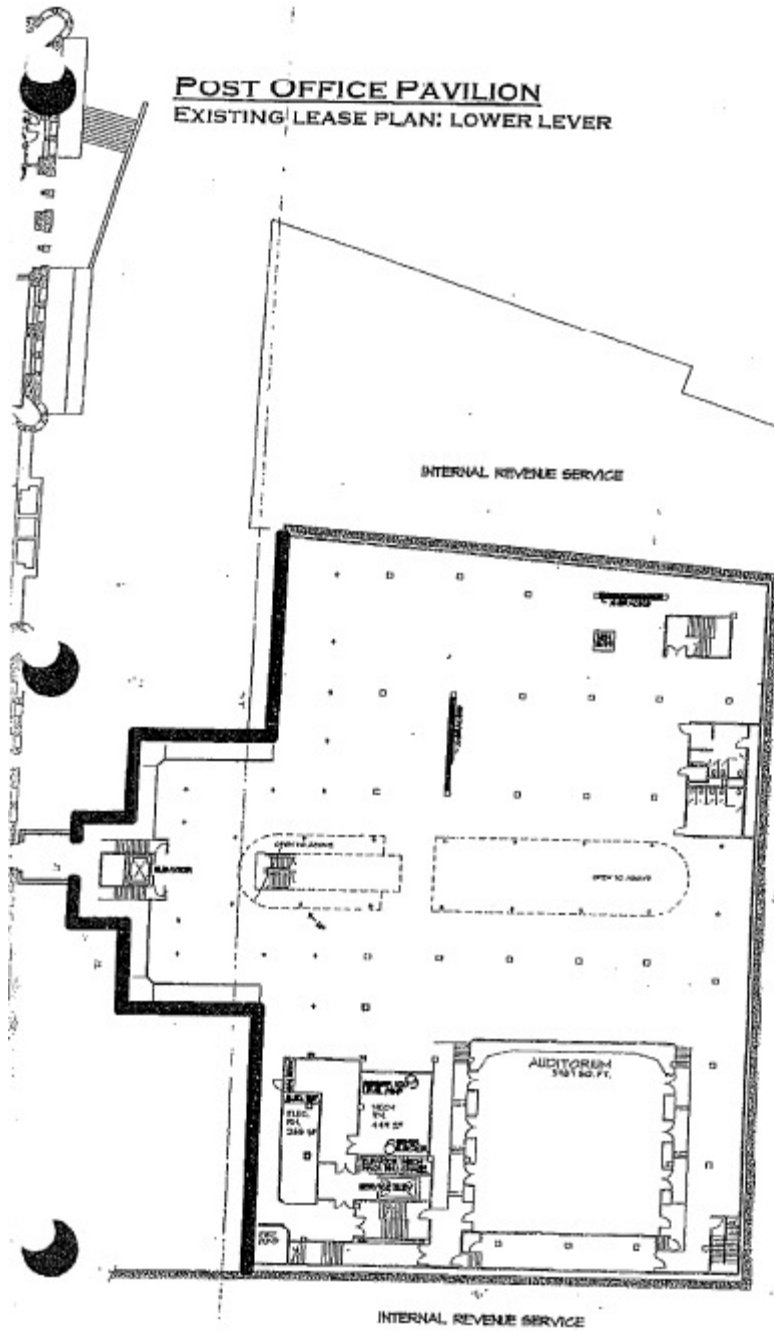
**NOT TO SCALE**

TENANT OCCUPANCY  
PLANS

## **ANNEX FLOOR PLANS**

# **POST OFFICE PAVILION** **EXISTING LEASE PLAN: LOWER LEVEL**

PENNSYLVANIA AVENUE

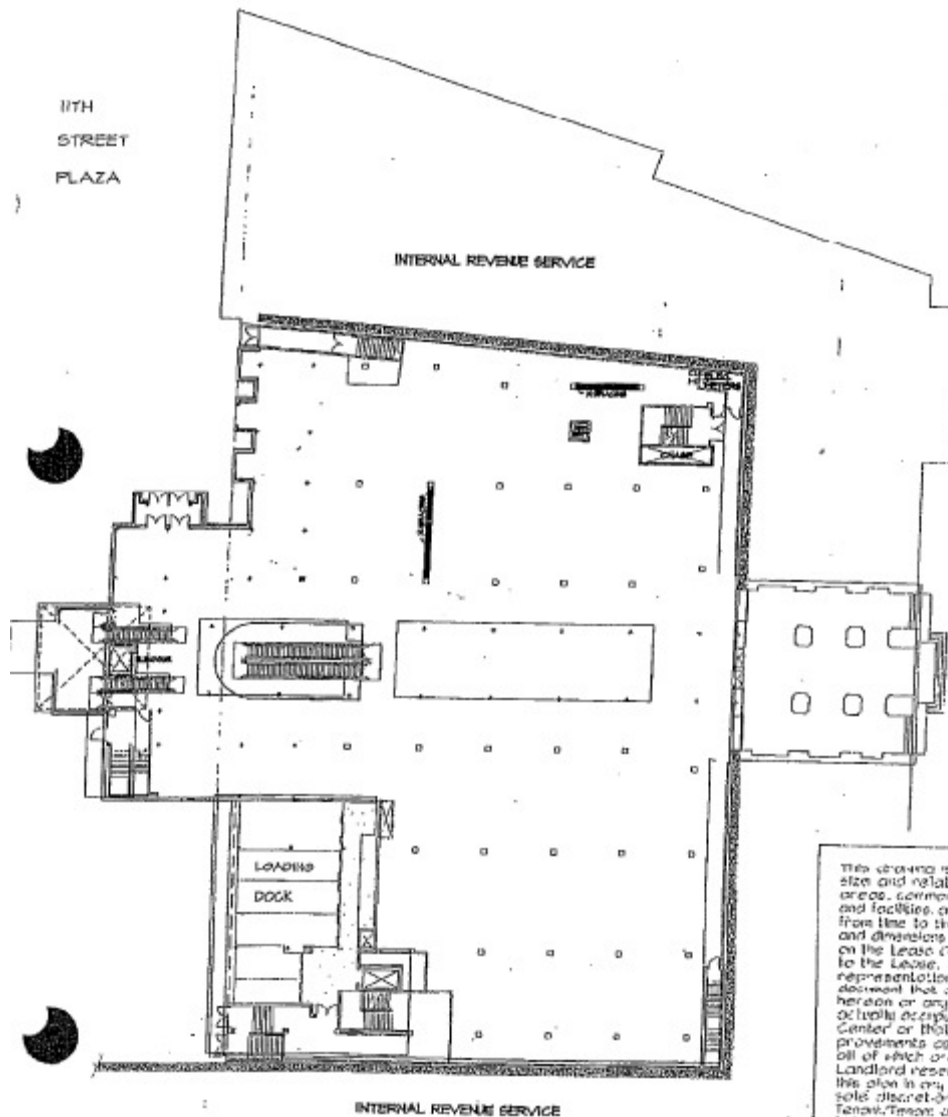


This drawing is only illustrative of the size and relationship of the layout, areas, common areas, other buildings, and facilities, and is subject to change from time to time. The precise location and dimensions of the premises appear on the Lease Office drawings attached to the Lease. The Landlord makes no representation or warranties with this document that any specific tenant will hereon or any number of tenants will actually occupy space in the Shopper Center or that any portion of the improvements as indicated will be built, all of which are subject to change. Landlord reserves the right to alter this plan in any manner it desires at its sole discretion without prior notice. Tenant/tenant architect responsible to field varying any and all dimensions or locations.

**POST OFFICE PAVILION**  
EXISTING LEASE PLAN: MAIN LEVEL

PENNSYLVANIA AVENUE

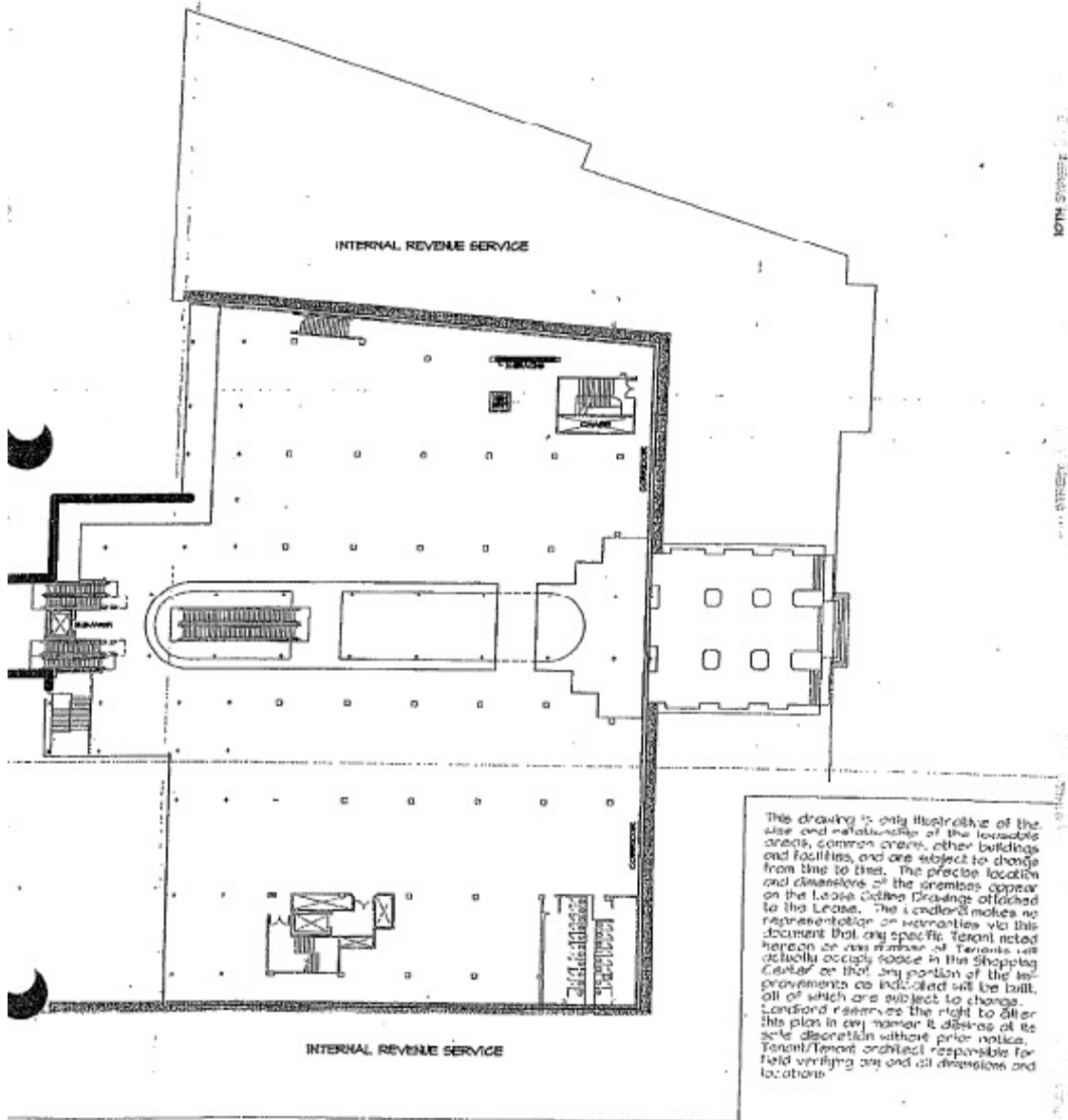
11TH  
STREET  
PLAZA



This drawing is only illustrative of the size and relationship of the leaseable areas, common areas, other buildings and facilities, and are subject to change from time to time. The precise location and dimensions of the premises appear on the Lease Outline Drawings attached to the Lease. The Landlord makes no representation or warranties via this document that any amount of tenants will actually occupy space in the shopping center or that any portion of the improvements as indicated will be built, all of which are subject to change. Landlord reserves the right to alter this plan in any manner it desires at its sole discretion without prior notice. Tenant, Tenant Architect, is responsible for field verifying any and all dimensions and locations.

**POST OFFICE PAVILION**  
**EXISTING LEASE PLAN: UPPER LEVEL**

PENNSYLVANIA AVENUE



## **HISTORICAL FINANCIAL RESULTS**

# Yearly Financial Statistics

## Yearly Financial Statistics (\$)

	Fiscal Year			
	2010 (Actual)	2011 (Budget)	2012 (Budget)	2013 (Budget)
<b>Revenue</b>				
Rent	6,139,158	6,112,480	N/A	N/A
Chargebacks/Overbillings	0	0	N/A	N/A
Chargeback Allowance	0	0	N/A	N/A
Outlease/Licenses	203,177	162,175	N/A	N/A
Cooperative Use Act	0	0	N/A	N/A
Imputed Rent	0	0	N/A	N/A
Income in Lieu of Rent	0	0	N/A	N/A
Miscellaneous	0	0	N/A	N/A
Rent from Security Charges	0	0	N/A	N/A
Unfunded Gain	0	0	N/A	N/A
Rent from FPS	0	0	N/A	N/A
Antenna	0	162,510	N/A	N/A
<b>Total Revenue</b>	<b>6,342,335</b>	<b>6,437,164</b>	<b>N/A</b>	<b>N/A</b>
<b>Funded Expenses</b>				
Cleaning	638,108	588,868	N/A	N/A
Fire Prot. & Life Safety	6,442	0	N/A	N/A
Utilities	1,201,462	1,251,310	N/A	N/A
Mech. Maint. & Ops.	669,408	648,648	N/A	N/A
Space Changes	2,385	0	N/A	N/A
Building Support	1,397,536	0	N/A	N/A
Regional Functions	0	0	N/A	N/A
Oper & Maint-AD	0	0	N/A	N/A
Operations & Maintenance	0	0	N/A	N/A
<b>Total Maint. &amp; Ops.</b>	<b>3,915,341</b>	<b>2,488,826</b>	<b>N/A</b>	<b>N/A</b>
<b>Total R&amp;A</b>	<b>1,421,332</b>	<b>0</b>	<b>N/A</b>	<b>N/A</b>
Rental of Space	0	0	N/A	N/A
<b>Uniformed Operations</b>	<b>112,208</b>	<b>0</b>	<b>N/A</b>	<b>N/A</b>
Security Guarding	3,062,155	0	N/A	N/A
Security Systems	0	0	N/A	N/A
Control Center/Communications	0	0	N/A	N/A
Criminal Investigations	0	0	N/A	N/A
Law Enf. & Security Off.	0	0	N/A	N/A
Physical Security	0	0	N/A	N/A
Protection Admin.	0	0	N/A	N/A
Protection	0	3,027,078	N/A	N/A
<b>Total Protection</b>	<b>3,174,362</b>	<b>3,027,078</b>	<b>N/A</b>	<b>N/A</b>
<b>National G&amp;A</b>	<b>1,204,673</b>	<b>1,328,967</b>	<b>N/A</b>	<b>N/A</b>
<b>Regional G&amp;A</b>	<b>683,809</b>	<b>670,255</b>	<b>N/A</b>	<b>N/A</b>
<b>Fed Protect Service G&amp;A</b>	<b>0</b>	<b>0</b>	<b>N/A</b>	<b>N/A</b>
<b>Field Office G&amp;A</b>	<b>1,875,388</b>	<b>1,507,980</b>	<b>N/A</b>	<b>N/A</b>
<b>Total G&amp;A</b>	<b>3,763,869</b>	<b>3,507,202</b>	<b>N/A</b>	<b>N/A</b>
<b>Purchase Contracts</b>	<b>0</b>	<b>0</b>	<b>N/A</b>	<b>N/A</b>
<b>Real Estate</b>	<b>20,000</b>	<b>0</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Other</b>	<b>233,965</b>	<b>1,721,684</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Funded Expenses</b>	<b>12,528,870</b>	<b>10,744,790</b>	<b>N/A</b>	<b>N/A</b>
<b>Funds from Operations</b>	<b>-6,186,535</b>	<b>-4,307,626</b>	<b>N/A</b>	<b>N/A</b>

## **Scope of Work**



ORDER FOR SUPPLIES AND SERVICES				REQUISITION/REFERENCE NUMBER		PAGE OF PAGES	
1. DATE OF ORDER JUL 22, 2011		2. ORDER NUMBER		3. CONTRACT NUMBER GS-00P-11-CY-C-0093		4. PON NUMBER PJ1P002130	
FOR GOVERNMENT USE ONLY	5. ACCOUNTING AND APPROPRIATION DATA <span style="float: right;">See Schedule</span>						
	FUND	FUNCTION CODE	ABA CODE	CCA	C/E CODE	PY	REGION
	CC-B	PROCL/PROS NO.	C/C CODE	ORG. CODE	W/ITEM	PRY/CRPT	
6. TO: CONTRACTOR (Name, address and zip code) METZBOWER, WATTS & HULTING, LC 5501 TWIN KNOLLS RD COLUMBIA MD 210453260				7. TYPE OF ORDER			
8A. Data Universal Numbering System (DUNS) Number 104767205  8B. Taxpayer Identification Number (TIN) 521905679  9A. BUSINESS CLASSIFICATION <input checked="" type="checkbox"/> a. SMALL <input type="checkbox"/> b. OTHER THAN SMALL <input type="checkbox"/> c. SMALL DISADVANTAGED <input type="checkbox"/> d. WOMAN-OWNED <input type="checkbox"/> e. HUBZone <input type="checkbox"/> f. EMERGING SMALL <input type="checkbox"/> g. VETERAN <input type="checkbox"/> h. SERVICE DISABLED VETERAN				A. <input checked="" type="checkbox"/> PURCHASE Please furnish the following on the terms and conditions specified on the order and the attached sheets, if any, including delivery as indicated. B. <input type="checkbox"/> DELIVERY (For Supplies) This delivery order is issued subject to the terms and conditions of the above numbered contract. C. <input type="checkbox"/> TASK ORDER (For Services) This task order is issued subject to the terms and conditions of the above numbered contract. D. MODIFICATION NUMBER      AUTHORITY FOR ISSUING Except as provided herein, all terms and conditions of the original order, as heretofore mentioned, remain unchanged. 9B. START DATE: JUL 22, 2011 9C. COMPLETION DATE: SEP 30, 2011			
10. ISSUING OFFICE (Address, Zip Code, and Telephone Number) PG Office of Organizational Resources 1800 F Street, NW Room 4302 Washington DC 20405		11. REMITTANCE ADDRESS (MANDATORY) 00003991 METZBOWER, WATTS & HULTING, LC 5501 TWIN KNOLLS RD SUITE 112 COLUMBIA MD 210453260		12. SHIP TO (Consignee Address, Zip Code and Telephone Number) PT GSA/PBS, Office of Portfolio Management (PT) Office of Portfolio Management (PT) 1800 F Street, NW Washington DC 20405			
13. PLACE OF INSPECTION AND ACCEPTANCE				14. REQUISITION OFFICE (Name, Symbol and Telephone Number)			
15. F.O.B. POINT Destination		16. GOVERNMENT B/L NUMBER		17. DELIVERY F.O.B. POINT SEP 30, 2011		18. PAYMENT/DISCOUNT TERMS 0 Days 0% Net 30	
19. SCHEDULE							
ITEM NUMBER (A)	SUPPLIES OR SERVICES (B)			QUANTITY ORDERED (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
	Effective Date: JUL 22, 2011 See Continuation Page for Line Item Details.						
20. RECEIVING OFFICE (Name, Symbol and Telephone Number)						TOTAL FROM 300-A(s)	\$15,000.00
21. MAIL INVOICE TO: (Electronic Invoice Preferred) BCFA PBS PAYMENTS BRANCH P.O. BOX 17181 FORT WORTH TX 76102-0181				22. GROSS SHIP WEIGHT		GRAND TOTAL	\$15,000.00
				23. SHIPPING POINT			
				24A. FOR INQUIRIES REGARDING PAYMENT CONTACT: Eddie Whitaker		24B. TELEPHONE NUMBER 202-209-6228	
25A. NAME AND TITLE OF OFFEROR/CONTRACTOR Richard Watts				26A. UNITED STATES OF AMERICA (NAME OF CONTRACTING/ORDERING OFFICER) Colinda Pratt		26C. DATE SIGNED 7/22/11	
(b) (6)				25C. DATE SIGNED 7-25-11		(b) (6)	

GENERAL SERVICES ADMINISTRATION

GSA 300 (REV. 5/2010)

**SCHEDULE Continued**

ITEM NO.	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE \$	AMOUNT \$
0001	<p>Accounting and Appropriation Data:  PJ1P00150.2011.192X.00.PG61.P00U1010.H07.PG901. . .  Cost Applied: \$15,000.00</p> <p>Appraisal for The Old Post Office  Period of Performance: 7/22/2011 to 9/30/2011</p> <p>The Contracting Officer's Technical Representative is  Mr. John Libeg. He can be reached on 202-208-0746 or  john.libeg@gsa.gov.</p> <p>Appraisal services for The Old Post Office located at  1100 Pennsylvania Avenue, NW Washington D.C.  Contractor shall provide services described in attached  Scope of Work.</p> <p><b>RELEASE OF CLAIMS:</b>  Contractor shall submit GSA form 1142. Release of  claims upon submission of final invoice. The GSA Form  shall be sent to the Contracting Officer identified in Block  26A.</p> <p><b>INVOICING:</b>  Password and electronic invoice access may be obtained  through GSA website <a href="http://www.finace.gsa.gov">www.finace.gsa.gov</a> the invoice  should reference the purchase order in block four (4).  A copy of the invoice should be sent to the requesting  office.</p> <p>Pricing Option: Firm-Fixed-Price</p>	1.00	EA	15,000.00	15,000.00

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT				1. Contract ID Code	Page of Pages 1 3
2. AMENDMENT MODIFICATION NO. PS01		3. EFFECTIVE DATE SEP 22, 2011		4. REQUISITION/PURCHASE REQ. NO.	
5. PROJECT NO. (if applicable)					
6. ISSUED BY Office of Organizational Resources 1800 F Street, NW Room 4302 Washington DC 20405		CCOE PG		7. ADMINISTERED BY (if other than item 6) See Block 6	
8. NAME AND ADDRESS OF CONTRACTOR (NO., Street, Country, State and ZIP Code) METZBOWER, WATTS & HULTING, LC 5501 TWIN KNOLLS RD COLUMBIA MD 210453280				<input checked="" type="checkbox"/> 9A. AMENDMENT OF SOLICITATION NO. <input type="checkbox"/> 9B. DATED (SEE ITEM 11) <input checked="" type="checkbox"/> 10A. MODIFICATION OF CONTRACT/ORDER NO. GS-07P-11-CY-C-0053 <input type="checkbox"/> 10B. DATED (SEE ITEM 13) JUL 22, 2011	
Rich Watts (410) 992-9631		CODE 00003901		FACILITY CODE	
11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS					
<input type="checkbox"/> The above numbered solicitation is amended as set forth in item 14. The hour and date specified for receipt of offers <input type="checkbox"/> is extended, <input type="checkbox"/> is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing items 8 and 15, and returning _____ copies of amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment your desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.					
12. ACCOUNTING AND APPROPRIATION DATA (if required)				Modification Amount: \$9,900.00 Modification Obligated Amount: \$9,900.00	
13. THIS ITEM ONLY APPLIES TO MODIFICATION OF CONTRACTS/ORDERS. IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.					
Check One		A. THIS ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.			
		B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation data, etc) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).			
<input checked="" type="checkbox"/>		C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:			
		D. OTHER (Specify type of modification and authority)			
E. IMPORTANT: Contractor <input type="checkbox"/> is not, <input checked="" type="checkbox"/> is required to sign this document and return 1 copies to the issuing office.					
14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible)					
See Supplementary Page.					
Except as provided herein, all terms and conditions of the document referenced in item 8A or 10A, as heretofore changed, remain unchanged and in full force and effect.					
15A. NAME AND TITLE OF SIGNER (Type or print)			16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print)		
Richard B. Watts			Collette Scott, Contracting Officer 202 501-0154 collette.scott@gsa.gov		
15B. CONTRACTOR/OFFEROR		15C. DATE SIGNED		16B. UNITED STATES OF AMERICA	
(b) (6)		9/22/11			
		(Signature of Contracting Officer)		16C. DATE SIGNED	

**Supplementary Page**

**Description of Modification/Amendment:**

Administration Modification for price increase of \$9,900.00 is hereby revised for the Old Post Office Appraisal contract number GS-00P-11-CY-C-0093. No change or modification to the Scope of Work (SOW). The sum of \$15,000.00 was previously agreed to by contractor and GSA. After award it became evident that the work to be performed under the contract could not be effectively performed for that amount. The contractor revised his bid to \$24,900.00. This modification reflects the revised bid price of \$24,000.00.

Contract Total Amount	
Original Obligated Amount -	\$15,000.00
Modification PS01 -	\$9,900.00
Total Contract Amount -	\$24,900.00

All terms and conditions remain the same.

SCHEDULE Continued					
ITEM NO.	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE \$	AMOUNT \$
0002	<p>Accounting and Appropriation Data:  PJ1P00150.2011.192X.00.PG91.P00U1010.H07.PG901. . .  Cost Applied: \$9,900.00</p> <p>(New Line Item)  Revised price modification for The Old Post Office Appraisal.</p> <p>Administration Modification for price increase of \$9,900.00 is hereby revised for the Old Post Office Appraisal contract number GS-00P-11-CY-C-0093. No change or modification to the Scope of Work (SOW).</p> <p>Pricing Option: Firm-Fixed-Price</p>	1.00	EA	9,900.00	9,900.00

**Rick Watts, MAI**

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**From:** "John Libeg (PTAA)" <john.libeg@gsa.gov>  
**To:** "Rick Watts, MAI" <rick@mwhappraisal.com>  
**Cc:** "Abe Saidifar" <abe.saidifar@gsa.gov>; "Addison Smith" <addison.smith@gsa.gov>; "Nicholas Hufford" <nicholas.hufford@gsa.gov>; "Frank Tassche" <frank.tassche@gsa.gov>  
**Sent:** Thursday, September 22, 2011 4:25 PM  
**Subject:** Re: DC0029ZZ Old Post Office  
**Rick:**

I spoke with Abe. He will not require you to provide it, so neither will I.

Per your request, permission to omit the Cost Approach is granted. However, please refer to the Scope of Work Paragraphs 18, 19 and 20 with regards to Omission of Cost Approach elements.

Omission of the cost approach does not relieve the appraiser from providing land comparables, and a full analysis of land comparables including an estimate of the property's underlying land value.

Also, a rudimentary estimate of the subject's cost may be necessary to calculate the "Rent Necessary to Justify New Construction" required by the Scope of Work. Your attention is directed to paragraphs 18, 19, and 20. Paragraph 19 states the following:

**"If GSA grants omission of the Cost Approach, at a minimum, the market value of the site is to be estimated, the economic life and effective age of the improvements are to be quantified, and any applicable forms of obsolescence and/or depreciation are to be discussed. The elimination of the Cost Approach does not relieve the appraiser of the obligation to provide an estimate of the rent required to justify new construction as delineated in Section 20 which immediately follows."**

**Please attach this email as addenda to any and all draft reports submitted for review, and as addenda to your final report.**

John N. Libeg, MAI  
GSA-National Appraiser for Market Valuation  
Asset Management and Valuation Division  
1800 F Street, NW, Room 7300  
Washington, DC 20405  
Telephone: (202) 208-0746  
Fax: (202) 208-1482

**Subject:** Re: Old Post Office Appraisal  
**From:** "Abe Saidifar (WPTBA)" <abe.saidifar@gsa.gov>  
**Date:** 9/29/2011 1:49 PM  
**To:** steve@mwhappraisal.com  
**CC:** addison.smith@gsa.gov, Rick Watts <rick@mwhappraisal.com>

It would be OK by me.

On Thu, Sep 29, 2011 at 1:26 PM, Steve Metzbower, MAI <[steve@mwhappraisal.com](mailto:steve@mwhappraisal.com)> wrote:

Abe:

With an extra two days, it would be Tuesday, October 4.

Steve

On 9/29/2011 1:02 PM, Abe Saidifar (WPTBA) wrote:

What is your proposed delivery date?

On Thu, Sep 29, 2011 at 12:59 PM, Steve Metzbower, MAI <[steve@mwhappraisal.com](mailto:steve@mwhappraisal.com)> wrote:

Abe:

I believe you had earlier mentioned to Rick that if we needed a couple of extra days to complete the report, that it would not be a problem. I think that I'm going to need that - it's my fault, not Rick's, his part of it is mostly done. The delay in getting the square footage figures nailed down did have some impact, no doubt. But for me it's really a matter of getting everything wrapped up properly.

Would this be alright with you? I had left a phone message for Addison about this earlier today.

Thanks very much,  
Steve

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Steven A. Metzbower, MAI  
Metzbower, Watts & Hulting, LC  
5501 Twin Knolls Road, Suite 112  
Columbia, MD 21045  
[\(410\) 992-9632](tel:(410)992-9632) Phone  
[\(410\) 992-9077](tel:(410)992-9077) Fax

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Abe Salidifar, MAI  
Regional Appraiser  
National Capital Region  
US General Services Administration  
301 7th Street, SW, Suite 7600  
Washington DC, 20407  
Tel. 202-708-8336

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Abe Saiidifar, MAI  
Regional Appraiser  
National Capital Region  
US General Services Administration  
301 7th Street, SW, Suite 7600  
Washington DC, 20407  
Tel. 202-708-8336



## SCOPE OF WORK FOR THE GSA NARRATIVE MARKET VALUE APPRAISAL REPORT

### GENERAL

The purpose of this appraisal may require more than one value estimate. The primary purpose of this assignment is to obtain an estimate of market value to the private sector in its current occupancy and condition "as is" as of the effective date of valuation. As most GSA assets are constantly undergoing or scheduled for monetary investment or renovation (such as R&A, GIUP or ARRA), another purpose of this appraisal is to estimate the prospective value of the asset "as if completed and leased to stabilized occupancy and income" as of the prospective date of completion and stabilization of occupancy and income. Individual bid requests will specify the number and type of values required. If the property is not at stable operations or condition at the time of inspection, the contract signatory, herein after known as the production appraiser, must contact the GSA Project Manager for the assignment and confirm the Scope and Statement of Work of the appraisal. The information in the report will be used for financial analyses within GSA and is not intended for the use of any parties outside of GSA. The condition of ownership by the private sector is hypothetical.

In the preparation of this report, the production appraiser shall follow current professional appraisal practices giving consideration to three approaches to value, namely, the Cost, Income Capitalization, and Sales Comparison Approaches. Should any approach or requirement covered in this Scope of Work not be applicable to the assignment, the production appraiser must obtain written approval (e-mails are acceptable) from the GSA Project Manager for the assignment prior to the decision to omit any approach. If such approval is obtained, it must be documented in the report.

The assignment requires that a credible appraisal be conducted and documented in a self-contained appraisal report. GSA valuations must be performed in a manner consistent with the Uniform Standards of Professional Appraisal Practice (USPAP), promulgated by the Appraisal Foundation that are current as of the effective date of the appraisal. In conformance with this Scope of Work, any supplemental Statement of Work, and applicable regulations promulgated by the state, commonwealth, territory or district in which the properties are situated.

The production appraiser and any signatory to the report must hold a certified general or equivalent state real estate appraisal license, and his/her signature must be affixed to the appraisal report along with that person's license number, the type of license they possess, and the expiration date of the license. The contract signatory must make an in-person comprehensive interior and exterior inspection of the asset(s) appraised, unless prior written permission to the contrary is given by the GSA Project Manager for the assignment.

All information provided by GSA about the property is considered to be confidential. This is particularly true with regard to floor plans and tenant information. The production appraiser must not disclose any confidential elements of the appraisal report, or any confidential information given to the appraiser by GSA or to any parties other than GSA appraisal staff except when required by law or Federal regulations. Information provided by GSA may not be used, included or cited in the preparation of reports other than those being prepared for the GSA, or under any circumstances can a report prepared for GSA be used as work sample. Access to any information provided by GSA must be restricted to individuals involved in the analysis and preparation of the report. The production appraiser shall maintain the work file, and it shall be the only work file. Continuing access to the file shall be permitted to contributing appraisers and such personnel as stipulated by USPAP and the policies and procedures of other regulatory entities. The production appraiser shall take reasonable precautions to ensure that the appraisal, the work file and any electronic media used to create, transmit or store confidential information is adequately secured.

### PROCEDURES FOR REPORTS PREPARED FOR THE CENTRAL OFFICE ASSET BUSINESS STRATEGIES DIVISION

Upon completion of an appraisal(s) by the production appraiser, a draft report will be submitted for review to the Office of Real Property Asset Management of GSA's Central Office to ensure that the data and analysis developed by the production appraiser substantiates the estimated valuation and conforms to the Scope of Work. An appraisal report submitted without a complete GSA – Narrative Market Value Appraisal Report Summary of Significant Conclusions and Scope of Work Reporting Requirements Checklist may be rejected and returned to the appraiser without further review.

One copy of the draft report is to be submitted to the Project Manager in GSA's Office of Real Property Asset Management in Central Office within (45) days of the beginning of the assignment for review, or within a time period that is approved by the program manager prior to the commencement of the assignment. Also, one copy is to be sent to the appropriate GSA Portfolio Regional Appraiser (see attachment). The draft reports must be complete and fully assembled, and may be submitted in either electronic or paper form (PDF format preferred). Whatever form is used, all exhibits must be included in the draft report. Exhibits and addenda include, but are not limited to, maps, photographs, plats, comparable data summary sheets, cash flow documentation, the GSA – Narrative Market Value Appraisal Report Summary of Significant Conclusions and the Scope of Work Reporting Requirements Checklist, this Scope of Work, and the qualifications of the appraiser(s).

The GSA Central Office reviewer will send the completed review document detailing any questions or issues to the production appraiser. After all revisions are complete, one paper copy of the final appraisal report is to be submitted to the Central Office Project Manager, and one copy is to be sent to the GSA Portfolio Regional Appraiser. The final report must also be submitted in electronic form (PDF format) to the Project Manager in Central Office. All exhibits must be included in the electronic form of the appraisal report. The invoice for the assignment is to be submitted per the instructions given in the notice-to-proceed letter,

but only at the time of submission of the final report. Unless prior approval of the GSA Project Manager for the assignment is obtained, any invoice submitted to GSA before completion of the review and revision process will be rejected.

The GSA contact for the production appraiser will be the GSA Project Manager in Central Office. The Portfolio Regional Appraiser will submit any comments regarding the appraisal to the GSA Project Manager in Central Office, not the production appraiser.

## FORMAT

If a property requires a discounted cash flow (DCF) in the analysis, the software must have certain capabilities. It must calculate individual tenant cash flows, combine the individual cash flows into a single property cash flow, and calculate the data into present value. It must handle individual terms and conditions as well as variations in assumptions over time, and display the assumptions used. The reviewer must be able to follow the assumptions, data, and calculations used in a DCF analysis. Argus is an example of such software. Any discounted cash flow files used in the analysis are to be provided in electronic form and must be compatible with the most current version of that software as of the date of the report's publication. Other spreadsheet files that are used in the analyses should be Microsoft Excel software or comparable and compatible software, and should also be provided in electronic form.

To provide uniformity for GSA files, the text of the self-contained report shall be divided into four parts as outlined below:

## PART I - INTRODUCTION

1. **TITLE PAGE.** This shall include (a) the name, street address and GSA control number of the property, (b) the name of the individual(s) signing the report, and (c) the effective date of the appraisal.
2. **TABLE OF CONTENTS**
3. **LETTER OF TRANSMITTAL.**
4. **SUMMARY OF SALIENT FACTS AND CONCLUSIONS.** Summarize the important data and conclusions in a concise manner, including: Property Identification, Purpose of the Appraisal, Scope of the Appraisal, Date of Value, Site Description, Improvement Description, Percentage of Current Occupancy, Zoning, Highest and Best Use, Value Indications (by Cost, Sales Comparison, and Income Capitalization Approaches), discount, capitalization and growth rates used, Final Estimate of Value.
5. **PROPERTY IDENTIFICATION.** Identify the property by name, location, and address. A legal description, deed book and page number or plat reference is preferred.
6. **SCOPE OF THE APPRAISAL.** The asset is to be appraised "as is" as of the effective date of value, or such other date(s) and in such other condition(s) as may be specified by the GSA Project Manager for the assignment. However, the hypothetical condition of ownership by a private sector purchaser is to be assumed.

The Fee Simple interest will be appraised, subject to any legally binding agreements, such as outleases. The existing tenants may continue to occupy the property regardless of the hypothetical change of ownership. Although the existing tenants may continue to occupy the property under private ownership, assume that a private owner would require that market derived rents and terms would dictate their continuing occupancy. Additionally, for any current or expected vacant spaces, assume that they would be subject to market derived lease up, rents and terms.

The operating statement developed by the production appraiser must reflect typical income and expenses that would be incurred by a private sector owner assuming application of competent property management practices observed in the local market. Although the fee simple interest in the property is to be appraised, an analysis is to be done regarding the anticipated market derived income and expenses compared to any actual income and expenses the property is generating under current federal ownership based on GSA's Occupancy Agreements (OA's)<sup>1</sup>. Although not legally binding, the OA's represent a commitment by both the tenant agency and GSA that the agency will occupy the space under the terms specified in the OA. This commitment is to be considered in the analysis of the property's anticipated occupancy.

7. **PROPERTY RIGHTS APPRAISED.** The property rights to be appraised are the Fee Simple estate, subject to any legally binding agreements, such as outleases.

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<sup>1</sup> No federal government-owned property has any legally binding leases because such agreements between government agencies are prohibited by law. To compensate for this, GSA has developed Occupancy Agreements (OA's) that spell out the business agreements for occupancy of the spaces by tenant agencies. The OA's are patterned after private sector leases, but are not legally binding. However, they represent a commitment by both the tenant agency and GSA that the agency will occupy the space for the term specified in the OA.

For appraisals performed for the Central Office Asset Business Strategies Division, information regarding any signed OA's pertinent to the asset will be included in the contractor's Notice to Proceed packet.

The Fee Simple estate is defined as:

*Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.*

8. REQUIRED DEFINITION OF VALUE. The value to be appraised is the Market Value which is defined as:

*The amount of cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.*

The report will contain this definition and only this definition of Market Value within the content of the report, or any addenda or glossary attached to the report.

9. INTENDED USE AND USERS OF THE APPRAISAL. The intended use of the appraisal is to provide an opinion of the value of the asset for analysis by GSA in determining the appropriate strategy for the asset. The intended user of the appraisal is the GSA.
10. DATE OF VALUE. The date of value will be the same date as the date of the latest comprehensive inspection of the asset. The Date of Value may not be more than 45 days before the date that the final appraisal report is received and accepted by GSA.
11. EXHIBITS.
- o PHOTOGRAPHS. Pictures of the subject shall show at least the front and rear elevations of the major improvements, a street scene, and any salient features (significant deferred maintenance or other value impacting conditions or features). Each subject photograph shall indicate the date the photograph was taken and the camera's direction of view. When a large number of buildings are involved, including duplicates, one picture may be used for each type of building as long as the photograph is labeled to indicate that it represents a typical building type. Views of the comparables are to be included. All graphic material shall include captions.
  - o MAPS. Legible location maps of the subject property and the comparables must be included.
12. STATEMENT OF LIMITING CONDITIONS AND ASSUMPTIONS.
13. APPRAISER'S CERTIFICATION. All appraisers who sign any part of the report will provide a certification as required by the licensing board in the state, commonwealth, territory or district where the property is located, and by USPAP. This shall include a statement that signatories have no undisclosed interest in property, that the statements included in the appraisal report are true and correct, that they have personally inspected the interior and exterior of the premises, date and amount of value estimates, etc. Any hypothetical conditions required by these specifications must be included within the certification.

## PART II - FACTUAL DATA

14. REGIONAL AND CITY ANALYSIS. In a concise manner, discuss the pertinent aspects of the asset's city and/or region (e.g. geographic, legal, social and economic factors). Include a succinct description of the regional market for the asset's property type. This data should include such information as affects the appraised property together with the appraiser's conclusions as to significant trends.
15. NEIGHBORHOOD DATA. Clearly define the asset's neighborhood, including boundaries, land use patterns, transportation issues, vacant land (especially developable land), as well as the lifecycle of the neighborhood (e.g. developing, stable, declining, redeveloping). Include a description of the local market for the asset's property type, and any other characteristics that have an impact on the asset's value, either positive or negative (vacancy rates, market rents, absorption, efficiency factors, and RAU ratios). Provide a comparative analysis of the subject property within the context of its market. The Market Rentable/Usable (RAU) factor estimated for the subject must be appropriately analyzed, quantified and supported in this section.
16. PROPERTY DATA -
- a. LEGAL DESCRIPTION - This description shall be sufficient to properly identify the property appraised. If lengthy, it can be referenced and included in Part IV.
  - b. SITE - The site description will be based on information provided by GSA, the appraiser's inspection, and other data as may be gathered from publicly recorded or other reliable sources. Describe the relevant characteristics of the site (both positive and negative) that impact the site's use and value. Describe the site's location, size, shape, access, ingress/egress, soil, topography, utilities, mineral deposits, easements, off-site improvements, any excess land, and any other relevant factors. Discuss any issues that impact the functionality of the site, such as drainage/flood plain, soil, visibility, developability, environmental issues or excess land. If an asset being valued shares an undivided site with a number of other assets that are not part of the asset being appraised, the production appraiser shall immediately contact the GSA Project Manager for the assignment to discuss the method by which a reasonable and adequately supported estimate of the land necessary to support the existing or proposed asset shall be allocated. An

appropriate disclosure of the extraordinary assumptions and limiting conditions related to such an allocation of land must be made within the appraisal report.

While appraisers are not normally expected to be environmental experts, they should make a reasonable attempt to discover if there is contamination on the property. The appraiser shall note in the report any observed, suspected or other knowledge of environmental contamination. The impacts of any noted environmental issues will be appropriately addressed.

- c. **LEGAL RESTRICTIONS.** Discuss the zoning that regulates the development of the site, or the most likely zoning that would regulate the development of the site under private ownership. Include relevant requirements such as permitted land uses, maximum building height, floor area ratio (FAR), and minimum setbacks and parking spaces. Discuss if the site and/or existing improvements (including the parking) are in compliance with the zoning regulations that impact the site. Discuss any other legal restrictions (binding agreements, covenants, easements, transferable development rights), and/or other regulations (historic designations or local comprehensive plans) that would impact the value of the site under private ownership.
- d. **IMPROVEMENTS** - This description may be by narrative or schedule form and shall include dimensions, square foot measurements, and where appropriate, a statement of the method of measurement used in determining rentable areas such as full floor, multi-tenancy, etc. Briefly describe the exteriors and interiors of any existing improvements. Include age, condition, quality, functional utility (or inutility), gross building area, net rentable area, usable area, joint use spaces, core factors, number of stories, adequacy of parking, and any other relevant characteristics (GSA rentable area may not be the same as rentable area in a specific market). Describe if the asset's leasing quality is considered to be Class A, B, or C (or lower) by market participants. If the property has a LEED certification, discuss the certification and its impact on value. State and photograph any deferred maintenance observed during the inspection of the building. Discuss and quantify any immediate capital costs that a private purchaser would incur. The appraiser must address whether the GSA RU factor is reasonable, based on the inspection of the appraised.  
  
Analyze and discuss the subject property's market rentable area compared to the rentable area reported by GSA. The market rentable area is to be used in estimating the asset's value.
- e. **HISTORY** - State briefly when GSA took possession of the property (include at least a ten-year history of the subject property) and, if possible, cite the deed book and page of the transaction. Include a copy of the deed in the report, if possible. State the purpose for which the improvements were designed, dates of original construction and major renovations, and/or additions.
- f. **REAL ESTATE TAXES.** Estimate the real estate tax assessment under private ownership. State the tax rate and give the dollar amount of the tax estimate. Future trends or prospective changes in the level of taxes should be discussed.

### PART III - ANALYSES AND CONCLUSIONS

- 17. **ANALYSIS OF HIGHEST AND BEST USE.** Describe the highest and best use of the site "as if vacant" and "as improved", using standard appraisal guidelines of physically possible uses, legally permitted uses, financially feasible uses, and maximally productive uses. The analysis should tie the highest and best use to the analyses used in the descriptions of the regional and neighborhood markets, the site, and the existing improvements. In the "as if vacant" analysis, include a discussion of the size as well as the type of any buildings that represent the highest and best use. Determine whether the existing improvements represent the highest and best use of the site, including if they represent a viable interim use or a special purpose use. Address whether any opportunities to increase income and/or value of the existing improvements are observed.  
  
The Government-owned assets over which GSA has stewardship often have unique design and construction, and many are over 50 years old. Therefore, the highest and best use analysis will be critical to determining strategies for the asset.
- 18. **LAND VALUE.** The appraiser's opinion of the value of the land shall be supported by confirmed sales of comparable lands. Differences shall be weighed and explained to show how the sales indicate the value of the land being appraised. Adjustments should be made from the sales to the subject, either in dollar amounts or percentages for all applicable elements of comparison. Provide adequate summary descriptions of comparable land sales, including location maps. Comparable sales used should be confirmed by someone having personal knowledge of the terms and conditions of the sale as well as the motivation of the principals. Reference to public records and revenue stamps does not confirm the terms and conditions of a sale. Tie the land valuation to the highest and best use analysis. All appraisals must include a section estimating the market value of the asset's underlying land.
- 19. **VALUE ESTIMATED BY COST APPROACH.** The Cost Approach may be used to estimate the market value of properties that are not frequently exchanged in the market, such as special use properties. It is particularly important when a lack of market activity limits the usefulness of the Sales Comparison Approach and when properties are not amenable to valuation by the Income Capitalization Approach. Since these characteristics pertain to some of GSA's Government-owned properties, the Cost Approach may be a viable method of valuation.  
  
This shall be in the form of computational data, arranged in sequence, beginning with reproduction or replacement cost. The dollar amounts of physical deterioration and functional and external obsolescence, or the omission of same, shall be explained in narrative form. The reader should be able to follow the appraiser's logic to his/her conclusion of value.

- Identify and describe the source used to estimate the replacement cost (or reproduction cost). The quantity survey or unit-in-place methods of estimating replacement/reproduction cost are preferred for most properties.
- Describe and quantify direct and indirect costs.
- Describe and estimate entrepreneurial profit.
- Explain and quantify all applicable types of accrued depreciation, including physical deterioration and functional and external obsolescence. Include deferred maintenance costs. Discuss whether the accrued depreciation is curable or incurable.
- Discuss the asset's economic life and effective age.

The Cost Approach may not be applicable to the valuation of all GSA assets. If GSA grants omission of the Cost Approach, at a minimum, the market value of the site is to be estimated, the economic life and effective age of the improvements are to be quantified, and any applicable forms of obsolescence and/or depreciation are to be discussed. The elimination of the Cost Approach does not relieve the appraiser of the obligation to provide an estimate of the rent required to justify new construction as delineated in Section 20 which immediately follows.

**20. VALUE ESTIMATED BY INCOME CAPITALIZATION APPROACH.** This shall include adequate factual data (a) estimated gross economic market rent; (b) allowance for vacancy and credit losses; (c) an itemized estimate of total anticipated expenses including reserves for replacement; and (d) net operating income. Capitalization of net income shall be at the rate prevailing for the subject property's type and location. The capitalization technique, method and rate used shall be explained in narrative form supported by an explanation of sources of rates and factors. The reader should be able to follow the appraiser's logic to his/her conclusion of value.

Although the Fee Simple interest in the property is to be appraised, a comparison analysis is to be done regarding the anticipated market derived income and expenses evaluated against the actual income the property is generating under current federal ownership based on OA's impacting the property. Although not legally binding, the OA's represent a commitment by both the tenant agency and GSA that the agency will occupy the space under the terms specified in the OA. This commitment will be considered in the analysis of the property's anticipated occupancy.

- Describe the current and expected occupancy levels, including expirations of OA's and outleases, if applicable. Estimate future vacancy and credit loss in relation to the risk reflected in capitalization rates used and the condition of the market in respect to existing vacancy rates for similar properties.
- Describe current rents, current tenant(s), and current and forecasted income and expenses.
- Estimate the minimum rent required to justify new construction. (If preferred, this may be discussed in the Highest and Best Use Section.)
- Discuss supply and demand in the market, including the subject's competitive position. Explain the key functional and economic issues, both positive and negative, relating to the subject property.
- Describe and analyze market rents (including escalations, concessions, length of the initial lease and the number and length of any renewal options, lease terms and conditions, tenant improvement allowances, expenses and any expense stops, etc.). Federal leases may not be used as lease comparables. Compare the market rents to the rents generated under current federal ownership based on any OA's impacting the property. The use of comparable leases more than one year old must be adequately explained and justified.
- Describe and analyze expenses in comparable properties, including fixed (ad valorem taxes and insurance), and variable (management, administration, utilities, cleaning, repairs and maintenance). Discuss the projected expense ratio of the subject property as if owned by a private owner, as compared to the expenses generated as currently owned by the federal government.
- Each rent comparable shall be weighed and explained in relation to the subject, and adjustments are to be made from the comparable to the subject. The rent comparables should be adjusted in relation to the subject for physical attributes such as location, age/condition, parking, quality/aesthetics, access/visibility, core factors, and efficiency ratios. Quantify and describe the adjustments applied.
- Discuss and quantify any immediate capital costs that a private purchaser would incur. Analyze any capital investments that are proposed by GSA, to determine which, if any, would also be incurred by a private sector purchaser.
- Develop a stabilized operating statement, addressing stabilized capital reserves. The appraiser's conclusion should be based on comparison with similar rentals.
- Estimate the value of the property using the Direct Capitalization method. Explain and support the overall capitalization rate used. Ideally, capitalization rates should be developed from the sale of similar properties, preferably in the market of the subject property. The source data for any mortgage and equity rates used should be included.
- If applicable, estimate the value of the property using the discounted cash flow analysis technique. Discuss anticipation of change of the subject property and support anticipated changes. Explain and support the discount and exit capitalization rates used.

21. **VALUE ESTIMATE BY SALES COMPARISON APPROACH.** All sales used shall be confirmed by the buyer, seller, broker, or other persons having knowledge of the price, terms, and conditions of sale. Each comparable shall be weighed and explained in relation to the subject from this approach. The use of comparable sales more than one year old must be adequately explained and justified. Adjustments should be made from the sale to the subject, either in dollar amounts or percentages for all applicable elements of comparison. The comparable sales should be adjusted in relation to the subject property for market and property conditions, location, core factors, efficiency ratios and other appropriate factors. The reader should be able to follow the appraiser's logic to his/her conclusion of value.
22. **RECONCILIATION AND FINAL ESTIMATED VALUE.** The appraiser shall interpret the foregoing estimates and shall state his/her reason why one or more of the conclusions reached in items (18), (20), and (21) are indicative of the market value of the property. Discuss the appropriateness and reliability of each approach and logically explain the derivation of the final estimated value. Pure "averaging" is not defensible.

#### PART IV - EXHIBITS AND ADDENDA

(Items 23. – 27. may be located within the appropriate sections of the body of the report.)

23. **PLOT PLAN AND TAX MAP**
24. **FLOOR PLANS**
25. **COMPARATIVE DATA MAP(S):** The production appraiser must show the geographic location of the appraised property and the comparative data analyzed.
26. **OTHER PERTINENT EXHIBITS.** The production appraiser must include a copy of the Scope of Work identified in the accepted contract of work. The production appraiser must also complete and include the GSA – Narrative Market Value Appraisal Report Summary of Significant Conclusions and Scope of Work Reporting Requirements Checklist with the report indicating that the appropriate information required in the report has been included, and identifying the pages where such information is located.
27. **QUALIFICATIONS.** (Include the qualifications of all appraisers and analysts significantly contributing to the value(s) reported.)

**GSA Central Office Project Manager for this Assignment**

John Libag, MAI  
Office of Real Estate Portfolio Management  
Asset Management and Valuations Division  
GSA Central Office  
1800 F Street, NW, Room 7300  
Washington, DC 20405  
(202) 208-0746  
[John.Libag@gsa.gov](mailto:John.Libag@gsa.gov)

**GSA Portfolio Regional Appraiser Addresses**

<b>Region 1 (ME, VT, NH, MA, RI, CT)</b>	<b>Region 3 cont'd</b>
Thomas Pirritano	Philadelphia, PA 19107-3191
General Services Administration	<a href="mailto:John.Kahler@gsa.gov">John.Kahler@gsa.gov</a> , Tel) 215-445-4751
Public Buildings Service, New England Region	
Portfolio Management (1PT)	
Thomas P. O'Neill Federal Building	<b>Region 4 (KY, NC, SC, TN, GA, AL, MS, FL)</b>
10 Causeway Street	James Lamas
Boston, MA 02222	Senior Appraiser
<a href="mailto:Thomas.Pirritano@gsa.gov">Thomas.Pirritano@gsa.gov</a> , Tel) 617-565-5712	General Services Administration
	Southeast Sunbelt Region
<b>Region 2 (NY, NJ)</b>	Portfolio Management Division (4PT)
William Migliore, ASA	77 Fensyth Street, Suite 450
General Services Administration	Atlanta, GA 30303
Public Buildings Service	<a href="mailto:James.Lamas@gsa.gov">James.Lamas@gsa.gov</a> , Tel) 404-562-0583
Northeast and Caribbean Region	
Portfolio Management (2PT)	<b>Region 5 (MN, WI, MI, OH, IN, IL)</b>
26 Federal Plaza, Room 1608	Cary Ullman, MAI
New York, NY 10278	General Services Administration
<a href="mailto:William.Migliore@gsa.gov">William.Migliore@gsa.gov</a> , Tel) 212-264-4197	Public Buildings Service, Great Lakes Region
	Portfolio Management (5PT)
<b>Region 3 (PA, DE, WV, VA, MD)</b>	230 Dearborn Street, Room 3622
John R. Kahler	Chicago, IL 60604
General Services Administration	<a href="mailto:Cary.Ullman@gsa.gov">Cary.Ullman@gsa.gov</a> , Tel) 312-866-4003
Public Buildings Service, Mid-Atlantic Region	
Portfolio Management Division (3PO)	
20 North Eighth Street, 8 <sup>th</sup> Floor	

<b>Region 6 (IA, MO, KS, NE)</b>	<b>Region 9 (AZ, NV, CA, HI, Guam)</b>
Robert Anders	Sheryl White
General Services Administration	General Services Administration
Public Buildings Service, Heartland Region	Public Buildings Service, Pacific Rim Region
Heartland Region	Office of Real Property Asset Management (SPT)
Portfolio Management (SPT)	3 <sup>rd</sup> Floor East, Room 547B
1500 East Bannister Road, Room 2151	450 Golden Gate Avenue
Kansas City, MO 64131-3088	San Francisco, CA 94102
<a href="mailto:Robert.Anders@gsa.gov">Robert.Anders@gsa.gov</a> Tel) 816-823-5079	<a href="mailto:Sheryl.White@gsa.gov">Sheryl.White@gsa.gov</a> Tel) 415-522-3488
<b>Region 7 (AR, LA, TX, OK, NM)</b>	<b>Region 10 (WA, ID, OR, AK)</b>
Randy J. Williams	Mike Wachna
General Services Administration	General Services Administration
Public Buildings Service	Public Buildings Service – 10POT
Greater Southwest Region	Northwest / Arctic Region
Portfolio Management	400 15 <sup>th</sup> Avenue, SW
819 Taylor Street, Room 11A21	Auburn, WA 98001-6599
Fort Worth, TX 76102-6105	<a href="mailto:Mike.Wachna@gsa.gov">Mike.Wachna@gsa.gov</a> Tel) 253-931-7420
<a href="mailto:Randy.J.Williams@gsa.gov">Randy.J.Williams@gsa.gov</a> Tel) 817-978-3745	
<b>Region 8 (MT, ND, SD, WY, CO, UT)</b>	<b>Region 11 (DC, counties of Montgomery and Prince Georges in MD; and the city of</b>
Joan Amend	Alexandria and the counties of Arlington,
General Services Administration	Fairfax, Loudon, and Prince William in VA)
Public Buildings Service	Abe Saldfar
Rocky Mountain Region	General Services Administration
Portfolio Management (SPPR)	Public Buildings Service
Denver Federal Center, Bldg 41, Rm 268	National Capital Region
P.O. Box 25546	Portfolio Analysis Division (WPT)
Denver, CO 80225-0546	7 <sup>th</sup> & D Streets SW, Room 7600
	Washington, DC 20407
<a href="mailto:Joan.Amend@gsa.gov">Joan.Amend@gsa.gov</a> Tel) 303-236-8000 ext. 2290	<a href="mailto:Abe.Saldfar@gsa.gov">Abe.Saldfar@gsa.gov</a> Tel) 202-708-6336



## **Qualifications**

**RICHARD B. WATTS, MAI**  
**Principal**

Education

**Dartmouth College, Hanover, NH**

(b) (6)

**American University, Washington, D.C.**

Successfully completed or challenged the following Appraisal Institute Courses:

- Appraisal Principles
- Appraisal Procedures
- Capitalization Theory and Techniques Parts A and B
- Advanced Case Studies
- Standards of Professional Practice
- Report Writing
- Comprehensive Appraisal Review

In addition, Mr. Watts has completed numerous seminars in the areas of subdivision analysis, environmentally impaired real estate, USPAP and FIRREA, highest and best use analysis, and market feasibility. The Appraisal Institute conducts a program of continuing education for its designated members. Mr. Watts has completed the requirements of this program.

Professional Memberships and Licenses

Designated Member of the Appraisal Institute (MAI) #10203

Certified General Appraiser in the following states:

Maryland # 04-1608

Virginia # 4001-001962

District of Columbia # GA-00010189

Delaware # X10000186

Professional Experience

After serving in the U.S. Peace Corps in North Africa, Mr. Watts began his career in real estate as a Realtor and residential appraiser in 1985. In 1988, he joined a large national firm in Washington, D.C. where he began to specialize in the appraisal of complex commercial properties. Prior to forming Metzbower, Watts & Hulting in 1994, Mr. Watts was Vice President of a regional appraisal and consulting firm in Baltimore, focusing on the appraisal of properties in the Mid-Atlantic region. Property types appraised by Mr. Watts include retail centers ranging from neighborhood strip centers to regional malls, mixed use subdivisions, apartment complexes, CBD and suburban office buildings, industrial parks, hotels/motels, and residential subdivisions. His geographic experience extends from Los Angeles, California to Washington, D.C. He has been qualified as an expert witness in the Circuit Courts of Baltimore City, Baltimore, Prince George's and Howard Counties in Maryland, Federal Bankruptcy Court in Greenbelt, MD and Washington, DC, and before Property Tax Appeal Boards throughout Maryland, Virginia, and in the District of Columbia.

★★★ GOVERNMENT  
OF THE  
DISTRICT OF COLUMBIA

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS  
OCCUPATIONAL AND PROFESSIONAL LICENSING ADMINISTRATION  
BOARD OF APPRAISERS

certifies that


**RICHARD B WATTS**  
418 PARK CREEK RD  
PASADENA MD 21122

*has met all requirements prescribed by law and regulations and is hereby licensed as:*

General Appraiser  
License Number: GA10189

ISSUE DATE: 03/01/2010

EXPIRATION DATE: 02/28/2012



Director

Department of Consumer and Regulatory Affairs

Sequence Number: 4

**STEVEN A. METZBOWER, MAI**  
**Principal**

Education

**St. Mary's College of Maryland, St. Mary's City, Maryland**

(b) (6)

**The Appraisal Institute**

Successfully completed the following Courses:

Introduction to Appraising Real Property  
Applied Residential Property Valuation  
Capitalization Theory and Techniques Parts A and B  
Standards of Professional Practice  
Case Studies in Real Estate Appraisal  
Narrative Report Writing  
Comprehensive Appraisal Review

The Appraisal Institute conducts a program of continuing education for its designated members. Mr. Metzbower has completed the requirements of this program.

Professional Memberships and Licenses

Designated Member of the Appraisal Institute (MAI) #10211

Certified General Appraiser in the following states:

Maryland # 04-636

Virginia # 4001-001924

District of Columbia # GA-10188

Pennsylvania # GA000858L

Professional Experience

Metzbower, Watts & Hulting, LC      Hanover, Maryland  
Principal, 1994 to present

Campanella & Company, Inc.      Towson, Maryland  
Vice President, 1992 to 1994

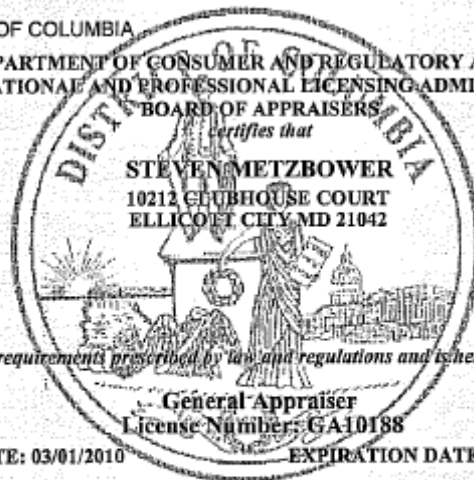
GA/Partners - Arthur Andersen & Co.      Washington, D.C.  
Manager, 1988 to 1992  
Associate, 1986 to 1988

Montgomery County, Maryland      Rockville, Maryland  
Assistant Public Advocate, 1984 to 1986

State of Maryland      Rockville and Towson, Maryland  
Assessor, 1979 to 1984

★★★ GOVERNMENT  
OF THE  
DISTRICT OF COLUMBIA

DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS  
OCCUPATIONAL AND PROFESSIONAL LICENSING ADMINISTRATION



*certifies that*  
**STEVEN METZBOWER**  
10212 CLUBHOUSE COURT  
ELLICOTT CITY MD 21042

*has met all requirements prescribed by law and regulations and is hereby licensed as:*

**General Appraiser**  
**License Number: GA10188**

**ISSUE DATE: 03/01/2010**

**EXPIRATION DATE: 02/28/2012**

  
Director

Department of Consumer and Regulatory Affairs

Sequence Number: 1

↓ PLEASE CAREFULLY DETACH AT PERFORATION ↓

## **GSA Checklist**

**GSA - Narrative Market Value Appraisal Report  
Summary of Significant Conclusions**

Property Name:	Old Post Office		
Street Address:	1100 Pennsylvania Ave, NW		
City, State, Zip:	Washington, DC 20004		
GSA Control Number:	DC0029ZZ		
Property Type:	Office with Retail and Annex ( Closed)		
Property Interest(s) Appraised:	Fee Simple		
Appraisal Type:	Complete		
Report Type:	Self Contained		
Production Appraiser:	Richard B. Watts, MAI; Steven A Metzbower, MAI		
Contract Appraiser Phone No. & e-mail:	410-992-9631 / rick@mwhappraisal.com		
Contract Appraiser Address:	5501 Twin Knolls Rd, Unit 112, Columbia, MD 21045		
Highest and Best Use as if vacant:	Office Development with ground level retail		
Highest and Best Use as improved:	Renovate for Class A Office/Retail; demolish annex for new office		
Review Appraiser:			
Date of Review(s):			
Building /Site Data			
Usable Area (sf):*	234,849	GSA Rentable Area (sf):	375,228
Gross Building Area (sf):*	515,426	Mkt Rentable Area (sf):	292,908
Mkt Bldg. Class (A,B,C,D)	B	# Stories	9.0
# of Existing Tenants:	Multiple	Year Built:	1899
Current Occupancy:	95.0%	Condition:	Fair
Yr. of Recent Renovation/Expansion:	N/A	Other Features:	Clock Tower
Land Area (including excess land):	117,799 sf	Excess Land:	None
Appraisal Report Findings			
Analysis reflects following scenario:	"As Is"		
	Old Post Office	Annex	
Effective Date of Values	9/2/2011	9/2/2011	
Cost Approach			
Effective Age (years)	40	30	
Total Economic Life (years)	60	20	
Cost New			
Depreciated Cost			
Land Value	\$115,000,000	\$28,000,000	
Value Indication	N/A	N/A	
Sales Comparison Approach			
Price Per -SF	\$325.00	\$130.00	
Income Multiplier (GIM/EGIM/NIM)	7.94 EGIM	N/A	
Value Indication	\$60,000,000	\$9,600,000	
Income Capitalization Approach			
Market Rent	\$41.50	\$27.00	
Overall Capitalization Rate	6.00%	6.25%	
Terminal Overall Rate	NA	NA	
Discount Rate (IRR)	NA	NA	
Annual Revenue Growth Assumptions (%)	NA	NA	
Annual Expense Growth Assumptions (%)	NA	NA	
Expense Ratio (%)	53.9%	55.5%	
Analysis Period Years/Months/etc.	Direct Cap Only	Direct Cap Only	
Value Indication	\$58,000,000	\$8,800,000	
Final Value			
Final Value -Govt Occuupancy	\$58,000,000	\$9,000,000	
\$/RSF	\$264.56	\$119.44	
Other Value (Specify): (Disposition, Bulk, Going Concern, Excess Land, etc. )			
Fee Simple Value at HBU	\$60,500,000	\$22,400,000	\$82,900,000 Total

**GSA - Narrative Market Value Appraisal Report  
Scope of Work Reporting Requirements Checklist**

Property Name:	Old Post Office
Street Address:	1100 Pennsylvania Ave, NW
City, State, Zip:	Washington, DC 20004
GSA Control Number:	DC0029ZZ
Production Appraiser:	Richard B. Watts, MAI; Steven A Metzbower, MAI
Review Appraiser:	
Date Draft Rec'd:	Date(s) of Review:

No.	Item	YES	NO	Page(s)
<b>GENERAL REQUIREMENTS</b>		<b>List N/A where appropriate.</b>		

a.	Report is addressed to GSA Central Office (Attn: Mr. John Libeg, MAI)	x		LTR
b.	Federal requirements:			
	1) The Production Appraiser and any other signatory is appropriately State Certified or licensed, the license # and its expiration date is included.	x		LTR
	2) The appraisal was performed and documented in accordance with USPAP currently in force and any applicable state, commonwealth, territory or district regulations.	x		LTR
	3) Appraisal firm engaged is approved as a Federal Contractor. Signatory is authorized to work under contract.	x		LTR
c.	The Production Appraiser has made a personal interior inspection of the property.	x		1
d.	The date of the report is clearly stated.	x		1
e.	The effective date of the valuation is dated.	x		1
f.	The appraisal is a complete appraisal that is documented in a self-contained report.	x		LTR
g.	All three approaches to value (Cost, Income, Sales Comparison) are included.	x		1
h.	The report provides acceptable reasons for the unavailability of information material to the valuation.	NA		
i.	The report includes all information necessary to enable a reader to reasonably understand the opinions expressed in the analysis.	x		5
j.	The Production Appraiser had prior authorization to eliminate any recognized valuation technique.	NA		
k.	An electronic copy (e-mail or disk) using the PDF format showing the complete appraisal report including the current DCF (if applicable) was sent to Central Office for review.	x		

**Part I: INTRODUCTION**

1.	Title Page:			
	a) Name, street address, GSA control number of the property	x		Title
	b) Name of individual(s) signing the report.	x		LTR
	c) Effective date of the appraisal.	x		LTR
2.	Table of Contents:	x		
3.	Letter of Transmittal:	x		LTR

4.	Summary of Salient Facts and Conclusions:			
	a) The important data and conclusions are summarized in a complete but concise manner.	x		1

*(Property Identification, Purpose of the Appraisal, Scope of the Appraisal, Date of Value, Site Description and Improvement Descriptions, Occupancy, Zoning, Highest and Best Use, Value Indications, Discount, Capitalization and Growth rates used, Final Estimate of Value.)*



5.	Property Identification: The report has an adequate identification of the subject (name, location, address and legal description) or minimally include the assessor's real estate tax identification number.	x		1-2
6.	Scope of the Appraisal: The appraisal's scope is consistent with the instructions.	x		5
	a) Appraised in its "as is" condition.	x		5
	b) Treats signed Occupancy Agreements consistent with instructions.	x		5
7.	Property Rights Appraised: The property rights appraised are consistent with the instructions.	x		5
8.	Definition of Value: The market value appraised is consistent with the Scope of Work and the correct definition is the only market value definition in the report.	x		5
9.	The purpose is consistent with the Scope of Work and the intended use /users were identified.	x		5
10.	Date of Value: The date of value is the same date as the date of the last comprehensive interior inspection by the Production Appraiser.	x		1

11. Exhibits:				
	a) Photographs: The photographs of the subject show the front elevation, any unusual features, abutting properties, etc., and have captions, dates the pictures were taken and show the direction of view for the camera.	x		ADD
	b) Maps: The location maps legibly depict the locations of the subject and comparables.	x		MISC

12. Statement of Limiting Conditions and Assumptions				
	a) Extraordinary assumptions, hypothetical conditions, or limiting conditions directly affecting value are clearly noted including but not limited to: Ownership by a private sector entity.	x		5
	b) Any encumbrances impacting the subject are clearly explained.	x		42,134

13. Report contains Certification acknowledging:				
	a) Statements are true and correct.	x		10
	b) Compliance with USPAP and appropriate state, commonwealth, territory or district appraisal board.	x		10
	c) Appraiser has no undisclosed interest, direct or indirect, financial or otherwise, in the subject.	x		10
	d) The Appraiser(s) signing the report must personally inspected the subject both internally and externally on the date of value unless directed otherwise by the contracting officer or their representatives.	x		10
	e) The certification is signed by all signatories of the report and includes all hypothetical conditions required by these Specifications.	x		10
	f) The date and value conclusion are included in the certification if required by the state, commonwealth, territory or district appraisal board.	x		10

<b>PART II: FACTUAL DATA</b>
------------------------------

14. Regional and City Analysis:				
	a) The pertinent aspects of the region and/or city are adequately discussed in a concise manner, including descriptions of the economic base/MSA, and land use trends.	x		12

b) Supply and Demand Issues:

- Competitive supply factors (including proposed additions) are discussed.			
-Sources of demand and most significant competitors are identified and discussed.	x		12
c) Includes an adequate but succinct description of the market for the subject's property type.	x		12
d ) The market trends coincide with the value conclusion.	x		12

15. Neighborhood Data

Clearly define the neighborhood's boundaries, land use patterns, transportation issues, vacant land, life cycle, and local market for subject's property type. <u>Market:</u> Vacancy, absorption rates, rents, efficiency ratios, and R/U factors are to be addressed in the report.	x		19
The competitive position of the subject property in relation to its market is discussed.	x		19

16. Property Data:

a) Site:			
-Relevant characteristics that impact its use and value are discussed. <i>Location, size, shape, access, ingress/egress, soil, topography, utilities, easements, off-site improvements, excess land.</i>	x		42
-Issues that impact the site's functionality are discussed. <i>Drainage/flood plain, soil, visibility, developability, environmental issues.</i>	x		42
-Anticipated public or private improvements (on or off-site) are to be addressed and considered in terms of impact on value.	NA		
-Whether the property has any observed or suspected environmental issues is noted.	x		42

b) Legal Restrictions:

-The zoning that would regulate the site under private ownership is discussed. <i>Permitted land uses, maximum building height or FAR (Floor Area Ratio), minimum setbacks, required parking spaces, (Transferable Development Rights) and any other rights or regulations that could impact value.</i>	x		54
-Whether the improvements are legally conforming or non-conforming is identified. If non-conforming, the potential for re-building in event of a fire and re-zoning is discussed.	x		54

c) Improvements

-The improvements are adequately described. <i>Dimensions (gross, net rentable, and common areas), square foot measurements, exteriors, interiors, age, condition, quality (Class A, B, C), functional utility/obsolescence, core factors, number of stories, adequacy of parking, deferred maintenance, etc. The property's rentable area as reported by GSA compared to the rentable area recognized by the market is discussed and quantified.</i>	x		45
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d) History

-Property history addressed, and prior sales analyzed as appropriate, including a copy of the deed.	NA		
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e) Real Estate Taxes

-The real estate tax assessment under private ownership is estimated for the subject property and is reasonable.	x		57,134
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### PART III: ANALYSES AND CONCLUSIONS

#### 17. Highest and Best Use (H&BU)

a) Adequately described as if vacant. Discusses size as well as type of optimum use.	x		61,134
b) Adequately described as improved. Determines whether the existing improvements are the H&BU of the site or an interim or special purpose use.	x		63,134
c) Analysis ties H&BU to regional/neighborhood markets, the site, the existing improvements.	x		63,134

#### 18. Land Value

a) Land value has been estimated.	x		65,196
b) Land value is based on the H&BU.	x		62
c) Underlying land is valued using appropriate confirmed sales and methodology is reasonably applied.	x		65

#### 19. Cost Approach:

a) Adequate cost data is used.		x	
b) Effective age and economic life are stated and estimates of depreciation and developer's profit are reasonable.		x	
c) The value indicated by the cost approach appears reasonable, given the data and analysis presented.		x	
d) If GSA has granted permission to omit Cost Approach, the property's economic life and effective age, as well as any applicable forms of depreciation or obsolescence are discussed. <b>Approach not applicable: approved by client</b>	X		

#### 20. Income Capitalization Approach

a) If a cash flow is used, a copy of the analysis is provided electronically in a format that is compatible with the current version of the software used to create it.	NA		
b) Current and projected occupancies are adequately discussed.	x		94
c) Survey of comparable properties includes adequate information.	x		81

*Rental rates or sales information (actual vs. quoted), vacancy, absorption information, amounts of expenses paid by lessor and lessee, and information pertaining to concessions and tenant improvements, as applicable.*

d) The rental comparables are described showing existing rental rates, current tenants(s) and other pertinent information. Compare these comparables with the subject's market rate and market terms. Analyze any differences and discuss the impact on value for the subject.			
	x		22,80
e) Each rent comparable is explained in relation to the subject. Adjustments are made from the comparable to the subject. Adjustments are quantified.	x		88
f) The minimum rent required to justify new construction is estimated.	x		178
g) Revenues projected are consistent with market rents applied to vacant areas, allowances for absorption, periods of vacancy, credit loss or renewal/turnover considerations, as appropriate.	x		90
h) If property is not stabilized, an appropriate lease-up period is supported by market information.	NA		
i) Operating history is reported and considered as background information.	x		95
j) Expenses are logically explained/supported, including real estate taxes and insurance.	x		95
k) A supported stabilized operating statement, including reserves for replacement, is included. Any immediate capital expenditure needs are quantified.	x		100
l) Overall rates (cap rates) are adequately analyzed and reconciled.	x		101
m) Where discounted cash flow models are used, adequate support is provided for the discount rate, as well as projected revenues and expenses.	NA		
n) The value indicated by the Income Approach appears reasonable, given the data and analysis presented.	x		103&109

<b>21. Sales Comparison Approach</b>			
a) Adequate confirmed sales of comparable properties are used, and techniques are properly applied.	x		110
b) Adjustments are quantified, clearly explained and logically supported.	x		122
c) Derivation of value indicators, such as income multipliers and overall rates are consistently extracted and clearly explained.	x		110
d) The value indicated by the sales comparison approach appears reasonable, given the data and analysis presented.	x		124&129

<b>22. Reconciliation and Final Estimated Value</b>			
a) Appraiser's opinions concerning marketability, market trends and highest and best use are reflected in valuation.	x		
b) The appropriateness and reliability of each approach is discussed and the derivation of the final estimated value is reasonable.	x		130&197

<b>PART IV: EXHIBITS AND ADDENDA</b>
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23	a) Exhibits are complete and adequate:			
	b) Plot Plan and Tax Map	x		42,Add
	c) Floor Plans are included unless the report explains that the information was not provided to them by GSA.	x		Adden 65,81,
	d) Comparative Data Map(s) showing the subject and the comparables.	x		110,189
24	Other Exhibits:			
	a) Specifications for the Scope of Work for the GSA Narrative Market Value Appraisal Report.	x		Adden
	b) Completed Reporting Requirements Checklist.	x		Adden
25	Appraiser Qualifications			
	a) Qualifications of all appraisers and analysts significantly contributing to this report are described.	x		Adden

**Comments and Clarifications from the Reviewer**